Workplace Safety and Insurance Board

2013 Annual Report

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Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

2013 Annual Report

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President and CEO's Message

Since joining the Workplace Safety and Insurance Board, I have watched this great organization make tremendous strides in transforming into a more responsive, innovative and fiscally sustainable system – and one that contributes to the prosperity of the province. We owe this progress to the dedicated and professional staff, managers and leadership team I am privileged to work with – together with a reinvigorated Board of Directors that packs the needed expertise. Our stakeholders are also more actively engaged through consultations than in the past. Their contributions have been invaluable.

This experience has been capped by close collaboration with our Chair, Elizabeth Witmer, who has greatly advanced a sense of mission that strives to build the trust of workers, employers and stakeholder through fairness, in the delivery of services and benefits, and with integrity and due regard for our founding principles.

Renewing livelihoods for workers, ensuring stability for employers

This is the core of what we do: supporting injured workers and employers with recovery and return to work, while ensuring fair benefits. It speaks to getting workers and employers back to what matters. This is how we mitigate the impact of workplace injuries and illnesses on families, communities and the province's productivity.

To sustain this critical function, we've invested in return-to-work services, making almost 26,000 worksite visits in 2013. Also in 2013, 92 per cent of all injured workers with lost-time injuries were back on the job with no wage loss within 12 months compared to just 85 per cent in 2008. Our Work Transition Program also continues to achieve a higher employment success rate and higher satisfaction ratings among workers and employers, while reducing costs compared to the previous, outsourced program. And it continues to expand, adding work experience services and English-as-a-Second-Language programs to provide essential workplace skills – and so much more.

Today's WSIB has moved away from a traditional, passive fee-for-service payer system. We are now focussed on developing a worker-centric health provider system with a deep understanding of occupational health and work reintegration. All of this has required a significant up-front investment to expand access to the right health care treatment and services at the right time. This explains why, while our per-worker health care costs have gone up, our overall health care expenditures have gone down. It's an investment that has more than paid for itself, through declines both in the average duration of lost time and in permanent impairments.

Restoring the system to financial health

We are fully on track to achieving our commitment of 60 per cent funding sufficiency by 2017. Improved recovery and return-to-work outcomes and fewer new claims have reduced the annual amount of benefit payments from $3.2 billion in 2009 to just over $2.5 billion in 2013.

That said, we can't ensure a sustainable system unless our premium revenues match our costs. Today, we are well-positioned to offer rate stability for employers, as demonstrated through our premium rate freeze for 2014. For the third straight year in 2013, employer premiums fully covered our operating costs, and we achieved core earnings of $715 million. As a result, some $2 billion in investment earnings achieved in 2013 could be applied against the UFL.

Service excellence and efficient business practices

Our goal throughout 2013 has been to keep administrative costs in line with comparable organizations through increased efficiencies – while achieving service excellence.

Our efforts are bearing fruit, thanks to programs such as our new business model in the Employer Service Centre, where almost 650,000 incoming calls were responded to within approximately one minute in 2013. Furthermore, employers received a live answer – no voicemail required – to 95.6 per cent of all their calls, a vast improvement over the previous model that saw fewer than half answered live. In the same vein, faster decision making has resulted in 92 per cent of eligibility decisions now being made within two weeks of a claim being received compared to 65 per cent in 2008. More than half of these are made within 24 hours.

Employers have embraced our eService offerings: In 2013, almost all clearance certificates were issued online and the use of ePremium and eRegistration by employers continued to grow. In 2013, we also introduced Teleclaim, allowing employers and workers to report claim details over the phone. We also reduced the administrative burden associated with filing no-lost-time (NLT) claims by 60 per cent, with an easier-to-use form. As a result, from January to June 2013, employers saved an estimated 10,000 hours, or more than half a million dollars per year. The result is an unprecedented level of customer satisfaction. Our fourth quarter surveys revealed that 84 per cent of employers and 77 per cent of workers were very or somewhat satisfied with their experience in dealing with us.

Contributing to the productivity of Ontario's workplaces

And, our program reforms are benefiting Ontario as a whole. In 2013, an analysis found that our better recovery and return to work outcomes, along with falling new claims rates, resulted in roughly two million fewer productive days lost annually compared to 2009. This translates into more than $900 million a year in added productivity – a near-billion dollar "productivity dividend" injected straight back into Ontario's GDP.

A note of caution

So, we have come a long way indeed, led by significant improvements in our fiscal position. However, we have been at this crossroads before: Some years ago, the WSIB realized a period of strong investment returns we relied on to cover costs. So our funding ratio was healthy at the time; exceeding 70 per cent. But those returns didn't last – and neither did that funding ratio. Therefore, caution must be used to project financial results into the future based on current data, together with any decisions that impact the ever-delicate balance between employer premiums and worker benefits.

Our gains could easily be undone; we cannot afford to let that happen. The value of this system – getting workers and employers back to what matters – is integral to maintaining the health of Ontario's economy. So today, it is more important than ever that we maintain our focus, build on our momentum and complete our journey.

I. David Marshall

President and CEO

Chair's Message

This was a year of significant progress for the WSIB in its transformation to become a more responsive, transparent and sustainable organization for the employers and workers it serves.

We now have some of the very best recovery and return to work outcomes in Canada. We have also seen significant improvement in our financial results as our UFL dropped from a high of $14.2 billion in 2012 to $10.6 billion in 2013.

The Board of Directors undertook a review of its 2012-2016 Strategic Plan to ensure it better reflects our core focus on healthy and safe workplaces, safe return to work and fairness for workers and employers.

I continued my province-wide tour to meet with injured workers, unions, employers and business groups to learn first-hand about the challenges they face in dealing with the WSIB and seek their advice and input for improvements. Their perspectives are essential to improving the quality of our worker and employer experiences with the WSIB.

Service Excellence

Based on the stakeholder feedback and customer satisfaction surveys this year regarding service excellence, we have seen unprecedented levels of customer satisfaction. Injured workers are seeing faster decision making that has resulted in 92% of eligibility decisions now being made within 2 weeks of a claim being received. More than half of these are made within 24 hours. In addition, the WSIB has introduced a suite of e-services for employers to allow them to more conveniently register, pay premiums and receive clearance certificates 24/7.

The WSIB has also been recognized for its efforts in reducing red tape for small business. The Ontario Government's report, Open for Business, Fewer Burdens Greater Growth and the CFIB's Red Tape Report Card have both acknowledged our efforts in making it easier for business to deal with the WSIB.

Health and Safety Remains a Priority

As noted in the updated Five Year Strategic Plan and in support of the prevention mandate moving to the MOL, the WSIB will remain a key player in Health and Safety. We are represented on Ontario's Prevention Council and there is a collaborative working relationship between the Board of Director's Health and Safety Committee and the Chief Prevention Officer to help them achieve their strategy to prevent injuries and improve the delivery of workplace health and safety services.

My own personal commitment to the elimination of workplace injuries, illnesses and fatalities, which arose out of Sean Kells premature death, remains strong.

Commitment to Stakeholder Engagement

The dialogue and consultation with stakeholders has been critical this year as we review issues of concern and policies of the Board. In particular, the Benefit Policy Review and Rate Framework Review have been influenced by stakeholder feedback and advice and we look forward to future consultation.

I would like to thank the four Chair's Advisory Committees, (Labour & Injured Workers Advisory Committee, Industrial & Manufacturing Advisory Committee, General Business Advisory Committee and the Construction Industry Advisory Committee) for regularly meeting with me to present the collective perspective of their sectors as we engage in a meaningful and constructive dialogue on system issues and concerns. I value their insight and advice.

Encouraging Results for Workers, Employers and Ontario's Economy

In addition to ensuring the fair administration of benefits, the WSIB is responsible for helping injured workers return safely to work so they can lead fulfilling and productive lives. Recent research has shown that if workers do not return to work within 90 days of an injury, chances that they would ever get back to work dropped by 50 per cent. As a result of these findings the WSIB has transformed its approach to return to work and also introduced a new health care strategy. WSIB has shifted from being a passive to an active participant which has facilitated workers' more safe and timely return to health and work.

This in turn has offered employers greater predictability and enhanced productivity through fewer days lost to illness or injury. Left unchecked, this can have a detrimental effect on injured workers, employers and Ontario's economy. A strong economy contributes to job creation which benefits all Ontarians. In partnership with workers and employers, who both remain vigilant in keeping our workplaces healthy and safe, our new pro-active approach shows vastly improved results; results that restore injured workers' physical, emotional and social well being and results that encourage investment in Ontario's economic future.

Our achievements and progress this year are only possible because of the professional and committed team with whom I am privileged to work. I would like to thank my Board of Directors, President and CEO, David Marshall and the leadership team and the staff of the WSIB for their dedication, compassion and expertise.

As we begin our second century of service to Ontarians we remain committed to maintaining our focus on healthy and safe workplaces, operational and fiscal accountability and ongoing innovation in order to make the WSIB the best workplace health and safety system in North America.

Elizabeth Witmer
Chair

Board of Directors and Committees

The members of the Workplace Safety and Insurance Board (the "WSIB") Board of Directors have a diverse range of skills and understanding, reflecting their experiences across many business and industry sectors.

Elizabeth Witmer, Chair **May 17, 2012 – May 16, 2017**

Elizabeth Witmer has a 34 year history of public service, first as a trustee and Chair of the Waterloo County Board of Education, then Waterloo North and Kitchener-Waterloo Member of Provincial Parliament from 1990 to 2012 and now, Chair of the WSIB. She is the longest serving female Member of Provincial Parliament in Ontario history. During that time she served as Deputy Premier and in senior positions as Minister of Labour, Minister of Health & Long-Term Care, Minister of Environment and Minister of Education.

Her leadership and accomplishments have been acknowledged with many prestigious awards such as the Smogbuster Award from the Ontario Clean Air Alliance in directing the closure of the first coal plant in Ontario and the Social Work Doctors Award of Merit to recognize her strong commitment to a just and caring society.

Elizabeth is a graduate of the University of Western Ontario, Althouse College of Education and completed the Directors Education Program (DEP), jointly developed by the Institute of Corporate Directors and the University of Toronto's Rotman School of Management.

In addition to chairing the Board of Directors, Elizabeth chairs the Governance Committee.

I. David Marshall, President and CEO **January 24, 2010 – January 23, 2015**

Prior to joining the WSIB, I. David Marshall was Canadian Ambassador to Barbados and the Eastern Caribbean. He is also a Fellow of the Certified General Accountants Association of Canada and served in several senior executive roles in the Government of Canada, consecutively as Assistant Auditor General for Canada; Assistant Deputy Minister at Revenue Canada, Customs and Excise; and Assistant Deputy Minister at Employment and Immigration Canada.

David has also served in senior positions in the telecommunications and banking industries including an appointment as Vice Chairman of CIBC from 1999 to 2002. He returned to the Federal Government as Deputy Minister of Public Works and Government Services Canada and Deputy Receiver General for Canada.

David is also a member of the Investment Committee and Governance Committee.

Lynda Bowles **November 14, 2012 – November 13, 2016**

Lynda Bowles, a FCPA, FCA specialized in Audit, Governance, Quality reviews and Financial Advisory Services over a 33 year career at Deloitte & Touche.

Currently, she is a Director, Vice-Chair and member of the Executive, Corporate and Campus Development Committees of the West Park Health Care Centre, a Director and member of the Audit, Finance and Risk Committee of the Technical Standards and Safety Authority, and a Director of Cryptomills Technology Inc., and MLSE Foundation. Previously she has served on many boards including the University of Guelph, Women's College Hospital and the Toronto Zoological Society.

Lynda is a graduate of the University of Guelph with a Master of Science degree.

Lynda is the Vice-Chair of the Audit and Finance Committee and the Investment Committee, and a member of the Governance Committee.

Brendan Calder **May 4, 2011 – May 3, 2014**

Since 2001, Brendan Calder has been an Adjunct Professor and Entrepreneur in Residence at the University of Toronto's Rotman School of Management. Previously, he served as Chairman, President and CEO with CIBC Mortgages from 1996 to 2000. Brendan holds a Bachelor of Math Degree from the University of Waterloo, attended the Advanced Management Program at Harvard Business School, and holds the Institute of Corporate Directors', Director ("ICD.D") designation.

Alice Dong **October 17, 2012 – October 16, 2015**

A graduate of the University of Toronto, Dr. Alice Dong is an occupational health physician with professional expertise in the public and private sectors. Both Canadian and American Board certified, Dr. Dong has training and practical experience in health and safety, disability management, and return to work.

She is a past Chair of the Ontario Medical Association Committee on Work and Health, a former Vice Chair of the Governing Council of the University of Toronto, and is a former Board member of the Women's College Hospital. She is currently a medical consultant to Disability Management Services, RBC Insurance.

Alice is a member of the Health and Safety Committee and the Human Resources and Compensation Committee.

P. Morgan McCague **August 21, 2008 – August 20, 2014**

P. Morgan McCague has over 40 years of work experience establishing new investment operations and new programs and has worked at a senior level with the Ontario Teachers' Pension Plan, the Alberta Teachers' Retirement Fund and various financial institutions.

Morgan is a graduate of the Institute of Corporate Directors, was a Director of GCAN Insurance Company, and served as President of the Buy-Side Investment Management Association.

Morgan is the Chair of the Investment Committee and is a member of the Audit and Finance Committee and the Governance Committee.

Lea M. Ray **December 3, 2008 – December 2, 2016**

Lea holds an ICD.D designation granted by the Institute of Corporate Directors and is a Chartered Professional Accountant. She also holds a Bachelor of Commerce Degree from the Odette School of Business, University of Windsor.

Lea is currently a Director of Tarion Warranty Corporation. Her professional experience includes Warner Bros. Entertainment Canada Inc., a division of Time Warner, where she was employed for 18 years, most recently in the role of Vice President of Corporate Finance.

She has served on the Professional Conduct Committee of the Chartered Professional Accountants (Ontario) and has served as a Board member and volunteer of several non-profit health, conservation, and other charitable institutions.

Lea is the Chair of the Audit and Finance Committee and is a member of the Health and Safety Committee, the Investment Committee and the Governance Committee.

Sari Sairanen **September 24, 2008 – September 23, 2014**

Sari Sairanen is a National Health and Safety Director at the UNIFOR and came to the National Union from the Airline Division, which represents members from across Canada. Sari also sits on the Occupational Safety and Health Service Regulatory Review Committee of Human Resources and Skills Development Canada, the CSA Group's Strategic Steering Committee and the Canadian Labour Congress' Occupational Health and Safety Committee.

Sari is the Chair of the Health and Safety Committee and is a member of the Governance Committee and the Human Resources and Compensation Committee.

Scott Wilson **December 5, 2012 – December 4, 2016**

Scott Wilson is Executive Director of the Kitchener, Waterloo, Cambridge Injured Workers Group.

For over 10 years, Scott has provided peer support and guidance to injured workers and has been an active contributor to WSIB issues. A former glazier metal mechanic for over 20 years, he suffered a severe injury in 1999. Scott is now currently pursuing his Paralegal accreditation.

Scott is a member of the Health and Safety Committee and the Human Resources and Compensation Committee.

Bryce Walker **January 23, 2013 – January 22, 2017**

Bryce brings with him a wealth of experience in healthcare and education governance. He is currently Chair of the Board of Trustees of the Healthcare of Ontario Pension Plan and past Chair of both Wilfred Laurier University's Board of Governors and Grand River Hospital's Board of Directors. Grand River Hospital is one of Ontario's largest community hospitals located in the Waterloo region.

Bryce's professional experience includes his role as Senior Vice President of Group Benefits for Manulife Financial, from which he has retired. He has a Bachelor of Math degree from the University of Waterloo, is a Fellow of the Canadian Institute of Actuaries, is a Chartered Financial Analyst and holds an ICD.D designation, granted by the Institute of Corporate Directors.

Bryce is the Chair of the Human Resources and Compensation Committee and is a member of the Audit and Finance Committee and the Investment Committee.

Committees of the Board of Directors

Audit and Finance Committee: advises on financial and other reporting practices and internal controls. The committee includes external advisor **Peter Ringler**.

Health and Safety Committee: advises on workplace health and safety policies, performance objectives, and measurement criteria.

Human Resources and Compensation Committee: advises on the health and safety of WSIB employees and the human resources function.

Governance Committee: advises on governance and policy matters.

Investment Committee: provides counsel on investment policy, monitors investment returns, and reviews the performance of investment managers and their compliance with applicable laws and regulations, and their respective mandates. The committee includes external advisors **Maureen Farrow**, **Don Walcot**, and **Paul Grise**.

Management's Responsibility for Financial Reporting

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the consolidated financial statements have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and, where appropriate, reflect management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information included in the Annual Report and ensuring its consistency with the consolidated financial statements.

The Audit and Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and reviews the consolidated financial statements and the independent auditors' report. The Audit and Finance Committee also reports its findings to the Board of Directors for consideration in approving the WSIB's Annual Report and its submission to the Minister of Labour (the "Minister") pursuant to a Memorandum of Understanding between the Ministry of Labour (the "MoL") of the Province of Ontario (the "Province") and the WSIB.

In this MD&A, the "WSIB" or the words "our", "us" or "we" refer to the WSIB. This MD&A is dated, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, and involving assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

The consolidated financial statements have been examined by the WSIB's independent auditors, Ernst & Young LLP, and their report is provided herein.

ID Marshall

I. David Marshall
President and Chief Executive Officer
April 24, 2014
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

Management's Discussion and Analysis

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1. Year in Review

Highlights of our performance for the year ended December 31, 2013 compared to 2012.

The following MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2013 (the "consolidated financial statements").

Financial highlights

In 2013, we generated $3,687 million of Comprehensive income reflecting:

- $715 million of Core Earnings reflecting continued strong operating performance resulting from growth in premium revenues and improved return to work outcomes resulting in lower benefit payments;
- $2,042 million of net investment income attributed to a 12.7% return on our investments, well ahead of our long-term return target of 6.0%;
- $90 million of actuarial gains reflecting the impact of better return to work outcomes relative to our expectations; and
- $840 million of other comprehensive income reflecting an 80 basis point increase in the interest rate used to value our employee benefit liabilities.

2013 was an outstanding year financially which resulted in $3,687 million of Comprehensive income. Readers should exercise caution when interpreting our 2013 results as more than $2,100 million or 57% of our comprehensive income is, in our opinion unusual and non-recurring in nature. The underlying strength of our operations continues and we believe that Core Earnings between $600 and $800 million annually are reasonable to expect assuming the current entitlement to benefits remains unchanged. Core earnings, in combination with investment earnings of approximately $1,200 or 6% should be sustainable annually over the long-term. Lastly, it would not be prudent for us to assume long-term interest rates will continue to increase thereby allowing us to record significant other comprehensive income as we did in 2013 when the yield on the Canadian AA long-term corporate bond rose by 80 basis points.

Several years ago, the WSIB achieved strong investment returns which allowed it to achieve a Funding ratio in excess of 70%. Despite these strong investment returns, the WSIB was not able to continue to progress towards eliminating its unfunded liability and accordingly, utmost caution must now be exercised in projecting financial results into the future based on our current results.

Financial highlights for the year ended December 31, 2013 compared to the year ended December 31, 2012:

- Premium revenues increased $281 million or 6.8% reflecting a 4.0% increase in insurable earnings due to strong growth in the construction, health care, manufacturing and service industries and a 3.9% increase in our average premium rate, net of $50 million of higher net mandatory employer incentive programs expense reflecting improved return to work outcomes and $8 million of other items. For the third consecutive year, we generated positive cash flow in our business as our premium revenues exceeded our operating expenses excluding the change in actuarial valuation of benefit liabilities, thereby allowing us to transfer $850 million of cash generated from operating activities to our investment fund as a reduction to our unfunded liability.
- Net investment income increased $583 million representing a 12.7% return on investments compared to 10.5% reflecting a 27.5% return in public equities. While we are pleased with the investment returns achieved, we caution readers that these results are not sustainable over the long-term. Accordingly, we continue to target a 6% rate of return on our investments over a rolling 10 to 15 year period.

- Benefit payments decreased $146 million or 5.5% reflecting improved recovery and return to work outcomes for injured workers and 4.4% or 1,664 fewer new lost-time injuries, notwithstanding an increase in employment levels of 3.3%.
- The actuarial valuation of benefit liabilities decreased $90 million to $26,960 million reflecting lower than expected costs in 2013 which resulted in a reduction of $1,227 million which was partially offset by changes made to valuation methods and assumption which added $896 million.
- Administration and other expenses, before allocation to benefit costs, increased a modest $15 million or 1.9% notwithstanding absorbing $9 million of inflationary pressures. As a result of aggressive cost management, our full-time staff level decreased from 3,870 full-time equivalents in 2012 to 3,844 full-time equivalents in 2013 while we continue to invest in improved return to work outcomes and support our transformational activities.
- Other comprehensive income increased $1,003 million reflecting an 80 basis point increase in the interest rate used to value our employee benefit liabilities.

Our unfunded liability was $10,638 million as at December 31, 2013, a decrease of $3,423 million or 24.3%, corresponding to a 10.1 percentage point increase in our Funding ratio from 55.3% at December 31, 2012 to 65.4% at December 31, 2013.

2013 Operational highlights

Strong return to work outcomes. The positive impact of our new service delivery model, health care strategy and work transition program are now being noted in reduced longer duration claims. In 2013, for the first time since the introduction of the Workplace Safety and Insurance Act (Bill 99) in January 1998, the percentage of workers on benefits at 72 months decreased compared to the prior year. All other durations, with the exception of three months, also improved. Workers who required longer-term support were also more successful in mitigating their wage loss. The average Loss of Earnings entitlement award at lock-in decreased to 47.2% from 49.8% in 2012 reflecting the results of our return to work program.

Continued investment in health care. We continued to focus on providing high quality, specialized and timely health care for injured workers. In 2013, we invested more to enable injured workers to recover quicker, with the average health care costs per worker increasing by 2.2%. As a result of fewer claims and improved recovery results, overall health costs decreased by $8 million or 2.7%. Our health care strategy has resulted in improved recovery and fewer injured workers developing chronic conditions. In 2013, the percentage of workers with a permanent impairment decreased to 6.6% from 8.9% in 2012, and the average level of impairment decreased to 9.7% in 2013 from 10.4% in 2012.

Improving access channels for our customers. In 2013, we continued to include new access channels and enhance current ones. We introduced phone reporting (teleclaim), allowing employers and workers to register their claims directly with the WSIB over the phone. In internal surveys, employers and injured workers indicated a high degree of satisfaction (over 90%) with this service. Uptake in our eServices has also improved: 95.1% of clearance certificates were issued online, 68.1% of new accounts were registered using eRegistration, and use of ePremiums increased to 55.3%.

Improved customer satisfaction. Results from our fourth quarter 2013 customer satisfaction survey revealed that our transformation efforts have resulted in significant gains in customer satisfaction, which continue to reach some of the highest levels since tracking began in 2011. In the fourth quarter of 2013, 77% of injured workers were satisfied or somewhat satisfied with the service they received regarding their claims, compared to 69% in the fourth quarter of 2012. For the same periods, employer satisfaction with claims and accounts also increased to 84% and 87%, from 81% and 84% respectively.

Appeals modernization improves efficiency. Following significant engagement with stakeholders, we introduced reforms to our Appeals system to respond to the growing backlog of appeals and ensure timelier resolution of appeals in the future. While these reforms have only been in effect since February 1, 2013, early indications are that the new system has greatly improved timeliness and maintained the quality of decision making, thus increasing fairness to workers and employers. All outstanding appeals registered prior to 2012 have been resolved and the active inventory of appeals has decreased by 68%, from approximately 8,000 at December 31, 2012 to just over 2,500 by December 31, 2013. We fully expect the efficiency of the system to further improve as the appeals backlog has now been eliminated.

Continued decrease in claims volume. The number of registered claims decreased by 0.4% or 708 claims in 2013 which resulted in a decrease in our lost-time injury rate by 5.3% to 0.98 injuries per 100 workers, the lowest in Canada.

Contribution to occupational health and safety and prevention in Ontario. WSIB contributed $241 million in 2013, an increase of $8 million compared to 2012, to the Province for the administration of the *Occupational Health and Safety Act* (the "OHSA") and prevention programs operated by the MoL. In addition, $50 million was paid by the WSIB to safety programs as an incentive to employers to promote safer workplaces and reduce injuries.

Looking ahead. Since the release of our 2012-2016 Strategic Plan, we have achieved significant improvements in our operational and financial results. We now have some of the best recovery and return to work outcomes in Canada, customer satisfaction continues to improve, and we are steadily moving towards a sustainable workers' compensation system. While we are satisfied with the improvements achieved, the road ahead continues to be challenging. Historically, the WSIB has seen significant progress on a number of occasions in the past only to fall short of our goal of full funding. As part of our new annual strategic planning cycle, the WSIB's Board of Directors recently undertook a review of the Strategic Plan to determine if adjustments were needed. In response to their direction, the Strategic Plan was updated to provide better clarity on the objectives of the pillars, and their relationship to each other.

2. Our Business

An overview of our business.

Our mandate

The WSIB, a trust agency of the Government of Ontario, is legislated to administer the Province's no-fault workplace compensation system under the *Workplace Safety and Insurance Act* (the "WSIA"). We administer the system with revenues collected through employer premiums, and to a lesser degree, income earned on our investments. The Province does not provide us with any funding.

For workers, we help them get back to what matters – productive lives and work – by supporting them in their recovery and return to work and compensating their wage loss, if required. Permanently injured workers who cannot return to their pre-injury employer are offered services to help them reintegrate into the workforce. In the event of a workplace fatality, the WSIB provides compensation and other benefits to the surviving spouse and dependents.

For employers, we provide collective liability insurance coverage and efficient account and claim management services, making it easy for them to get back to business. The collective liability system provides stable costs rather than large exposure risks, ensuring that both employers and workers can avoid costly and time-consuming litigation.

For both workers and employers, we support the promotion of workplace health and safety through Ontario's Chief Prevention Officer.

How we derive our income

Revenues to fund the operation of the WSIB and delivery of benefits and services are derived through premium revenues and investment returns.

Premiums

The WSIB collects premiums from employers classified under Schedule 1 of the WSIA and an administration fee from the employers listed in Schedule 2 of *Ontario Regulation 175/98*. Approximately 70% of the Province's labour force is covered by the WSIB under either Schedule 1 or Schedule 2.

Schedule 1 employers contribute to the collective liability insurance fund. There are over 285,000 firms, each assigned to one or more of 155 rate groups according to the nature of their business. The premium rate for each rate group reflects costs associated with benefits, administration and legislative obligations and past claims costs, including a charge to retire the unfunded liability for that rate group. Employer premiums may also be adjusted as a result of mandatory and voluntary incentive programs.

Mandatory employer incentive programs reduce or raise premiums paid by a firm based on their claims experience. Firms with over $1,000 but less than $25,000 in average annual premiums are assigned to the Merit Adjusted Premium plan. Firms that pay $25,000 or more are assigned to the New Experimental Experience Rating ("NEER") program or, if in the construction industry, the Council Amended Draft #7 program.

In addition, the WSIB maintains a Second Injury Entitlement Fund ("SIEF"). The SIEF reduces the amount of employer costs used for experience rating. It does this by relieving employer accounts of all or some of the claims costs in cases where the cause or duration of an injury was affected by a prior disability or pre-existing condition.

Schedule 2 employers are individually responsible for the full cost of their respective claims. Schedule 2 employers include federal and provincial governments and their agencies, municipalities and school boards, and other enterprises such as major railways with operations in Ontario. Schedule 2 employers reimburse the WSIB for the costs of their claims plus a fee to cover overhead and administrative costs and, in the case of provincially-regulated employers, legislative obligations.

Investments

Our governance process

We invest the portion of premiums collected but not required to fund current operating expenses or to be paid to or on behalf of injured workers in the year of their injury. As at December 31, 2013, we held $20.7 billion to be invested to fund all future benefits including the WSIB employee pension benefit obligations. Our investment strategy for these funds involves a prudent balance of income generation and capital appreciation until the funds are required to pay benefits for injured workers.

The following is a summary of our investment governance process:

- Our governance process establishes the oversight for determining how we invest our funds and the safeguards put in place to monitor our investments. Our governance process begins with an annual review of our Strategic Investment Plan ("SIP"). Our SIP is designed to provide a diversified source of investment income within an acceptable level of risk, commonly referred to as volatility. In accordance with best practices, our SIP is reviewed no less than annually by our Investment Committee, which includes independent investment experts and is then reviewed and approved by our Board of Directors. Our SIP seeks to lower the variability of our investment returns over time while maintaining an acceptable rate of return, thereby providing funding for benefits for injured workers.
- Our governance framework operates in accordance with best practices for good governance. Investment decisions that have the most impact on investment outcomes remain at the Board of Directors level. These decisions include our investment beliefs, establishing our overall governance framework, and approving our Statement of Investment Policies and Procedures. With appropriate reporting and oversight, the Board of Directors delegates certain investment decisions to our Investment Committee and our senior management. The Investment Committee is appointed by the Board of Directors and consists of Board members and external advisers who have the requisite degree of financial expertise with sufficient knowledge and skill to advise on the development and implementation of our investment strategy.

- The Investment Committee approves operational investment policies as well as the hiring of investment agents. Within well-defined investment mandates, security selection decisions are delegated to external managers consistent with our belief that external investment management is more compatible with our objectives. Our investment program is executed and monitored by senior staff members under the direction of our President and Chief Executive Officer, Chief Investment Officer, the Investment Committee and, ultimately, our Board of Directors.
- Risk is inherent in each element of the investment decision making process. Hence, risk measurement is an integral component of our governance program. We believe the most significant risks to which we are exposed include credit, liquidity and various market risks. A discussion of our investment risks and mitigating strategies is contained in note 23 of the consolidated financial statements. We use various financial and non-financial methods to assess, measure and monitor risk, and in 2012, we implemented a new investment risk measurement system.

What we invest in

We invest in a wide range of assets to provide a target level of investment return over the long-term given the level of risk we are prepared to assume. The asset strategies we invest in include:

- ***Fixed income.*** Our fixed income portfolio includes bonds, debentures, and other fixed income investments. Our government and corporate bond portfolios are designed to track the performance of their respective Canadian bond indices. Bonds provide diversification and liquidity, particularly when economic conditions are weak, or when market or economic shocks precipitate a flight to lower risk investments.
- ***Public equities.*** We invest in a diversified portfolio of domestic and international equities, or securities convertible into equity, to provide broad equity market exposure. Public equities are expected to provide higher investment returns than other asset classes over the long run, but exhibit a large degree of variability in investment returns from year to year.
- ***Multi-Asset.*** Our multi-asset portfolio consists of equities, bonds, commodities and other derivative instruments that utilize a broad array of strategies to earn equity-like returns, with lower levels of volatility. These strategies tend to be more complex than traditional strategies and require greater management oversight.
- ***Real Estate.*** We invest in real estate properties diversified across office, retail, industrial and mixed-use assets located throughout Canada. Real estate provides us with a predictable source of income and is expected to keep pace over time with inflation, both beneficial attributes.
- ***Infrastructure.*** Our infrastructure assets consist of a portfolio of global business and social service assets providing essential services, typically under long-term contracts. Infrastructure assets generally offer stable long-term cash flows. Similar to real estate, the long-term inflation sensitivity of infrastructure assets is a beneficial attribute for investors.

Benefit Costs

Types of benefit payments

A number of different benefits are administered by the WSIB in accordance with the WSIA and predecessor legislation, the *Workers' Compensation Act*. These benefits relate to compensating wage loss, and providing for health care treatments and other benefits to injured and ill workers and survivors. Each type of benefit is described in more detail below:

- Loss of earnings benefits compensate injured workers for earnings lost due to a work-related injury or illness occurring subsequent to 1997, starting the day after the injury or illness occurred. The benefit rate is based on 85% of the worker's pre-injury net average earnings, subject to legislated minimum and maximum amounts of compensation.

- Non-economic loss or NEL benefits represent compensation to a worker who suffers a permanent impairment as a result of an injury. Benefits are based on the severity of the permanent impairment. Non-economic loss benefits recognize the physical, functional or psychological loss resulting from a permanent impairment, beyond the wage loss.
- Health care costs are payments for professional services provided by health care practitioners, hospitals and health facilities as well as the cost of drugs that are required to facilitate recovery. In cases of serious injury, they may also include attendant services, home or vehicle modifications, assistive devices and prostheses, extraordinary transportation costs to obtain health care and other measures to improve the quality of an injured worker's life.
- External provider costs associated with our work reintegration program include payments to external agencies providing rehabilitation services, such as training programs to assist an injured worker's return to work and the costs of work transition assessments and plans. They are incurred when accommodations with the pre-injury employer are not available.
- Loss of retirement income benefits are payable to an injured worker who has received loss of earnings benefits for 12 continuous months or future economic loss benefits and was under the age of 64 at the date of injury. At age 65, the injured worker receives a benefit from contributions made to their Loss of Retirement Income account plus any investment income earned.
- Survivor pensions represent monthly benefits provided to the spouse, dependent children and other dependants of a worker whose death was the result of a workplace injury or occupational disease.
- Future economic loss or FEL benefits compensate workers injured after January 1, 1990, and prior to January 1, 1998, who cannot restore their pre-injury earnings as a result of a permanent impairment or temporary disability for 12 continuous months.
- Worker pensions represent pensions for injured workers suffering a workplace injury prior to January 1, 1990 based on the degree of the injured worker's disability.

Provision for claims

Benefit liabilities are established on a quarterly basis and represent the present value of the expected future cost to satisfy all claims occurring prior to but still outstanding, as at the consolidated statement of financial position date. The liability consists of expected costs for reported claims, liabilities costs that have been incurred but not yet reported, and a provision for future occupational disease claims. The calculations are reviewed by our external auditors as part of the WSIB's annual financial audit.

Data and other factors that can influence the amount and timing of future payments are considered when calculating benefit liabilities. Some of the factors are based on historical trends, our governing legislation, as well as our policies, claims adjudication practices and appeal decisions. We also consider the development of future claim payment trends, which may be impacted by management actions, legislative changes, judicial decisions and economic conditions. Where possible, we apply multiple techniques to estimate the required benefits liability provision. This approach provides additional insight into the trends inherent in the claims data being used to project the future payments valued in the benefits liability. Between the reporting and final disposition of a claim, circumstances may change which may result in changes to the established liability. For example, changes in the provisions of the WSIA or medical costs could substantially affect the ultimate cost of a claim. Accordingly, we review and re-evaluate claims and their impact on the estimate of the benefit liability on a regular basis.

Provisions made for future occupational diseases recognize that workers exposed to hazardous substances or conditions in their workplaces may develop occupational diseases after long latency periods. These provisions are significant and are expected to increase in future years due to increasing causal evidence and projected increases in benefit costs. Benefit costs will vary depending on the type and characteristics of the disease, and the timing and management of the claim. Given the inherent uncertainties, the eventual cost to satisfy outstanding claims can vary substantially from the initial estimates.

Administration and other expenses

Administration and other expenses include the expenses necessary to support our various business activities.

Legislated obligations and funding commitments

The WSIB is required to reimburse the Government of Ontario for the administration of the OHSA and various organizations including Health and Safety Associations, Workers' Health and Safety Centre, Occupational Health Clinics for Ontario Workers, the Office of the Worker Adviser, the Office of the Employer Adviser, and the Workplace Safety and Insurance Appeals Tribunal (the "WSIAT"). The WSIB also is required to fund research. On April 1, 2012, responsibility for the administration of research grants was transferred to the MoL.

Voluntary employer health and safety incentive programs are also available. The Safe Communities Incentive Program is a two-part small business training program that builds general awareness of workplace health and safety obligations and helps employers to build a health and safety program. Participants can receive a one-time 5% premium rebate for participating in each part of the program, however, not in the same calendar year.

The Safety Groups Program also awards a rebate of up to 6% of premiums to employers that successfully implement new return to work and health and safety elements, and reduce injuries and illnesses.

3. Our Strategy

A summary of our Strategic Plan.

The WSIB's 2012-2016 Strategic Plan, released in January 2012, provided a balanced and comprehensive approach towards eliminating the WSIB's unfunded liability, with a customer-centric focus along with a renewed vision and strategic framework. The Strategic Plan's pillars and objectives are designed to raise the quality of customer service and build a more modern, sustainable workplace compensation system. In addition to setting the strategic direction for the WSIB, the Strategic Plan also includes a three-year roadmap to drive the modernization of the WSIB.

As part of the WSIB's strategic planning cycle, the Board of Directors regularly assesses the relevancy of the Strategic Plan, taking into account performance results, external trends and the current operating environment. Since 2012, we have seen continuing, steady improvement in the WSIB's operational and financial results, which are monitored quarterly and published on the WSIB website.

In 2013, the Board of Directors confirmed the strategic framework and direction of the Strategic Plan, and called for revisions to the strategic pillars to better reflect our core focus on return to work and our ongoing commitment to fairness for workers and employers. The pillar names were modified accordingly. In addition, new objectives were added, and revisions made, to ensure that our efforts toward the Strategic Plan are comprehensive and measurable. The revised pillar names are as follows:

- Return to work and fair benefits;
- Sufficient funding;
- Revenue must be fairly assessed and cover costs;
- Service excellence and efficient administration; and
- Stakeholder relationships.

The resulting 2012-2016 Strategic Plan: 2014 Update brings new clarity to the direction and intent of the original plan. The pillars and their respective objectives continue to focus on transforming the WSIB into a sustainable, modern, and customer-centric system.

The WSIB remains committed to staying the course and continuing to build on the achievements made to date to work towards realizing our vision: ***To be the leading workplace compensation board.***

Our 2014 Priorities

To ensure the overall success of the WSIB's five-year Strategic Plan, the Board of Directors establishes annual priorities that are identified as critical to implementing each phase of the Strategic Plan. The following are the priorities for 2014.

Business Transformation

We will continue to implement our multi-year plan to modernize the WSIB's technology, processes and people. Key initiatives include:

- Implementing a modern accounts and claims management system that will enhance efficiency for our employer community and improve customer service features for workers and providers; and
- Upgrading our current website to provide a better online experience and easier access to eServices.

Funding Modernization

We will design and implement recommendations, initiatives and actions stemming from the Funding Review, including:

- Considering recommendations contained in Douglas Stanley's Pricing Fairness report and determining the next steps towards developing a new Rate Framework; and
- Working with the MoL as oversight of prevention-based incentive programs transitions to the MoL.

Human Resource Strategy

We will continue implementing our Human Resource Strategy to support ongoing transformation efforts and business outcomes. Key initiatives include:

- Building leadership capability to lead and manage enterprise change during the transformation;
- Focusing change management efforts on supporting the implementation of the new account and claims management system; and
- Developing an Enterprise Resource Strategy to ensure adequate human resources for business critical roles and enable people that drive maximum value for the organization.

Communications Strategy

The WSIB will develop a proactive Communications Strategy that will provide the WSIB with the tools to effectively engage stakeholders, promote its value and manage its reputation. Key initiatives include:

- Developing and implementing robust strategies for stakeholder engagement to foster better collaboration and information sharing;
- Establishing an issues management function to ensure issues are addressed promptly and appropriately; and
- Aligning all internal and external communications to our corporate objectives and priorities and key services and initiatives through clear, timely, focused and engaging communications.

4. Operating Results

A more detailed discussion of our financial performance for the year ended December 31, 2013 compared to 2012.

This section provides a detailed discussion of our financial performance. Certain prior year's figures have been reclassified to conform to the current year's presentation. Additionally, our consolidated financial statements have been prepared in accordance with IFRS. All amounts herein are in millions of Canadian dollars unless otherwise specified.

Financial highlights

The following table sets forth our annual operating results for the years ended December 31 is as follows:

			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Revenues				
Premiums	4,467	4,136	331	8.0
Net mandatory employer incentive programs	(80)	(30)	(50)	100+
	4,387	4,106	281	6.8
Net investment income				
Investment income	2,184	1,570	614	39.1
Investment expenses	(142)	(111)	(31)	27.9
	2,042	1,459	583	40.0
	6,429	**5,565**	**864**	**15.5**
Expenses				
Benefit costs				
Benefit payments	2,518	2,664	(146)	(5.5)
Claim administration costs	445	458	(13)	(2.8)
Change in actuarial valuation of benefit liabilities	(90)	660	(750)	100+
	2,873	3,782	(909)	(24.0)
Loss of Retirement Income Fund contributions	62	67	(5)	(7.5)
Administration and other expenses	361	333	28	8.4
Legislated obligations and funding commitments	286	276	10	3.6
	3,582	4,458	(876)	(19.7)
Excess of revenues over expenses	**2,847**	**1,107**	**1,740**	**100+**
Other comprehensive income (loss)				
Remeasurements of employee defined benefit plans	840	(163)	1,003	100+
Total comprehensive income	**3,687**	**944**	**2,743**	**100+**
Total comprehensive income attributable to:				
WSIB stakeholders	3,423	746	2,677	100+
Non-controlling interests	264	198	66	33.3
	3,687	**944**	**2,743**	**100+**
Other measures				
Core Earnings[1]	715	308	407	100+
Return on investments[2]	12.7%	10.5%	n/a	2.2
Unfunded liability[3]	(10,638)	(14,061)	3,423	24.3
Funding ratio[4]	65.4%	55.3%	n/a	10.1

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1. Core Earnings is calculated as total comprehensive income, excluding the impacts, of net investment income, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 16 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
4. Funding ratio is calculated as total assets, excluding non-controlling interests in investments, divided by total liabilities at the reporting date.

Premiums

Premiums were $4,387 million compared to $4,106 million, an increase of $281 million or 6.8% and are segmented as follows:

			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Schedule 1 employer premiums				
Gross Schedule 1 premiums	4,347	4,024	323	8.0
Interest and penalties	48	38	10	26.3
Other income	1	8	(7)	(87.5)
	4,396	4,070	326	8.0
Schedule 2 employer administration fees	71	66	5	7.6
	4,467	4,136	331	8.0
Net mandatory employer incentive programs	(80)	(30)	(50)	100+
	4,387	4,106	281	6.8

Gross premiums increased $323 million or 8.0% reflecting $168 million attributed to a 4.0% increase in insurable earnings as detailed below and $155 million, or 3.9% attributed to the increase in the average premium rate charged to employers in 2013.

Interest and penalties increased $10 million or 26.3% reflecting higher penalties for failure to report premiums and interest charged to employers for late payments.

Other income decreased $7 million as a result of higher funds received in 2012 related to a settlement of litigation.

Net mandatory employer incentive programs increased $50 million or 100+% reflecting higher refunds available under the retrospective experience-rating programs, principally the NEER program, reflecting favourable claims experience.

The WSIB offers rebates as well under voluntary employer incentive programs. These rebate programs, which are designed to encourage improvements in health and safety measures, are not directly related to premium revenues and were reclassified to legislated obligations and funding commitments in the 2013 consolidated statements of comprehensive income.

A comparison of employment, insurable earnings and gross premiums for the year ended December 31, 2013, along with the percentage change from the prior year is as follows:

	Employment[1]		Insurable Earnings		Gross Premiums	
(millions of Canadian dollars)	#	Change	$	Change	$	Change
Industry Sector						
Agriculture	54,151	4.0%	1,895	4.3%	78	6.6%
Automotive	140,456	2.0%	7,076	3.4%	247	5.5%
Construction	351,947	13.4%	18,040	15.1%	1,151	15.0%
Education	152,108	3.4%	6,554	1.1%	26	0.8%
Electrical	96,370	0.7%	5,378	2.7%	58	8.7%
Food	128,876	(0.2)%	4,853	(0.1)%	140	2.0%
Forestry	9,001	7.0%	391	7.6%	37	9.4%
Health care	495,494	2.7%	22,296	2.5%	350	4.8%
Manufacturing	940,664	1.2%	36,940	2.0%	654	4.6%
Mining	31,577	(0.1)%	2,002	(0.8)%	136	2.0%
Municipal	43,814	2.4%	2,058	2.7%	46	5.0%
Primary metals	28,355	1.7%	1,634	(1.6)%	47	1.2%
Process and chemicals	105,113	2.2%	4,490	1.0%	86	3.4%
Pulp and paper	17,499	3.3%	745	2.6%	23	5.0%
Services	1,541,393	3.2%	45,834	2.8%	754	5.0%
Transportation	249,312	4.5%	9,895	4.3%	468	7.0%
Total	**4,386,130**	**3.3%**	170,081	3.6%	4,301	7.5%
Premiums accrued but not reported			1,695	-	46	-
Total			**171,776**	**4.0%**	**4,347**	**8.0%**

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1. We derive employment levels based on reported insurable earnings divided by an estimated average wage for each industry sector.

Average premium rates

As communicated to employers in the fall of 2012, we increased our average published premium rate by 2.5% from $2.40 per $100 of insurable earnings in 2012 to $2.46 per $100 of insurable earnings in 2013, thereby allowing us to cover the costs of providing benefits to injured workers and the impact of inflation. This increase in average premium rates, along with several management initiatives such as our return to work efforts and improved health care strategy, allowed us to offset our increased costs.

Between 2007 and 2010, premium rates realized were between 1.0% and 3.0% below the average published premium rate for those years, resulting in a cumulative premium shortfall of $264 million. Since 2011, however, actual premium rates realized were slightly in excess of the average published rate. In 2013, we collected $2.53 per $100 of insurable earnings, above the average published premium rate of $2.46 but not fully recovering the previous years' accumulated deficit of expected premiums. The improvement in 2013 reflects stronger than anticipated growth in the automotive, construction, health care, manufacturing, services and transportation industries, indicative of stronger economic conditions.

A comparison of targeted and average premium rates collected for each of the past six years is noted below:

	Average Premium Rate (per $100 of insurable earnings)			Variance to Expected Premiums	
	Target ($)	Actual ($)	Variance ($)	Year ($ millions)	Cumulative ($ millions)
2008	2.26	2.23	(0.03)	(44)	(72)
2009	2.26	2.20	(0.06)	(94)	(166)
2010	2.30	2.23	(0.07)	(98)	(264)
2011	2.35	2.37	0.02	35	(229)
2012	2.40	2.44	0.04	62	(167)
2013	2.46	2.53	0.07	117	(50)

Net investment income

In 2013, we generated $2,042 million of net investment income representing a 12.7% gross rate of return compared to $1,459 million of net investment income representing a 10.5% rate of return. Over 10 and 15 years, our investment returns prior to investment expenses were 6.3% and 5.8% respectively.

A summary of investment income, segmented by asset class for the years ended December 31 is as follows:

Asset Class	**2013**				**2012**			
(millions of Canadian dollars)	**Investment income (loss)**	**Return %**	**Net asset value[1]**	**%**	**Investment income (loss)**	**Return %**	**Net asset value[1]**	**%**
Fixed income	(42)	(0.9)	5,034	24.3	162	3.7	4,568	26.0
Public equities	1,831	27.5	7,882	38.0	877	13.9	7,099	40.4
Multi-asset	166	4.6	4,738	22.9	340	13.4	3,509	20.0
Real estate	175	10.3	1,720	8.3	158	13.5	1,351	7.7
Infrastructure	45	13.8	526	2.5	25	13.6	243	1.4
Cash and cash equivalents	9	-	740	3.6	8	-	737	4.1
Annuities	-	-	75	0.4	-	-	72	0.4
Investment income	2,184	12.7	20,715	100.0	1,570	10.5	17,579	100.0
Investment expenses	(142)				(111)			
Net investment income	**2,042**				**1,459**			

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1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives.

The higher than expected returns in 2013 are not a reflection of expected future performance. We set our forward return expectations based on our long-term expected return of 6.0%. Additionally, a significant portion of our portfolio is invested in fixed income assets which are affected by market interest rates. If interest rates rise, returns on fixed income investments may be limited. Consequently, our net investment income for 2014 is anticipated to be moderate relative to 2013. Our financial performance is heavily reliant on the amount of investment income we are able to generate as each 1% rate of return on investments of the WSIB Insurance Fund represents approximately $170 million of net investment income equating to $0.10 cents of premium per $100 of insurable earnings or 4% of annual premiums.

Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statement of financial position. Total benefit costs were $2,873 million, a decrease of $909 million, or 24% as follows:

			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Benefit payments	2,518	2,664	(146)	(5.5)
Claim administration costs	445	458	(13)	(2.8)
Change in actuarial valuation of benefit liabilities	(90)	660	(750)	100+
Total benefit costs	**2,873**	**3,782**	**(909)**	**(24.0)**

Benefit payments

Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Loss of earnings	908	968	(60)	(6.2)
Workers' pensions	624	652	(28)	(4.3)
Health care	455	457	(2)	(0.4)
Future economic loss	242	259	(17)	(6.6)
Survivor benefits	178	176	2	1.1
External providers	52	65	(13)	(20.0)
Non-economic loss	48	60	(12)	(20.0)
Other	11	27	(16)	(59.3)
Total benefit payments	**2,518**	**2,664**	**(146)**	**(5.5)**

A summary of the changes in benefit payments for 2013 is as follows:

- Loss of earnings benefits decreased $60 million or 6.2% reflecting 7,873 or 12.1% fewer non-locked-in claims as at December 31, 2013 compared to 2012. This decrease was primarily due to improved claims management through better recovery and return to work outcomes and 1,664 or 4.4% fewer new lost-time injuries.
- Workers' pensions decreased $28 million or 4.3% reflecting the natural reduction of claims due to mortality.
- Health care costs decreased $2 million or 0.4% reflecting a 2.7% decrease in the number of claims requiring health care services. This change reflects a reduction in drug payments due to price reductions for generic drugs and fewer narcotics, partially offset by increases in payments to specialty clinics and programs of care supporting early return to work of injured workers.
- Future economic loss benefits decreased $17 million or 6.6% reflecting the natural drop in the number of claimants that reach age 65, the age at which these benefits cease.
- Survivor benefits increased $2 million or 1.1% reflecting annual indexation.
- External providers expense decreased $13 million or 20.0% primarily due to fewer lost-time injuries in recent years and a more targeted approach to return to work.

- Non-economic loss awards decreased $12 million or 20.0% reflecting fewer lost-time injuries in recent years, and the impact of more effective health care support resulting in a 0.4% reduction in the average permanent impairment from 10.2% to 9.8%.
- Other benefit costs decreased $16 million or 59.3% primarily due to lower overpayments and temporary supplements for claims prior to Bill 99.

Claim administration costs

Claim administration costs reflect the portion of administration and other expenses allocated to claim administration costs. For 2013, the allocation of administration and other expenses to claim administration costs was $445 million compared to $458 million in 2012, a decrease of $13 million or 2.8%.

Changes in actuarial valuation of benefit liabilities

			Change	
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**
Change in actuarial valuation of benefit liabilities	(90)	660	(750)	100+

Changes in actuarial valuation of benefit liabilities represent the change in the present value of future payments for loss of earnings and other disability benefits, health care, survivor, labour market re-entry and claim administration related to claims that occurred on or before December 31, 2013, and for occupational disease claims expected to arise in the future as a result of exposures which were incurred in the workplace on or before December 31, 2013 in respect of occupational diseases currently recognized by the WSIB.

Change in actuarial valuation of benefit liabilities decreased of $90 million compared to an increase of $660 million. The $90 million reduction in 2013 reflects the continuation of favourable experience results, partially offset by strengthening of valuation assumptions to reflect anticipated mortality improvements and the result of reducing our long-term inflation assumption by 50 basis points. The change is detailed as follows:

(millions of Canadian dollars)	**2013**
Benefit liabilities as at December 31, 2012	**27,050**
Payments made in 2013	(2,650)
Interest accretion[1]	1,412
Experience gains[2]	(1,227)
Changes in valuation basis[3]	896
Liabilities incurred for the 2013 injury year	1,479
Benefit liabilities as at December 31, 2013	**26,960**
Change in actuarial valuation of benefit liabilities	**90**

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1. Accretion represents the estimated interest cost of the benefits liability, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the year.
2. A sustained focus on returning injured workers to work generated $1,227 million of experience gains including $581 million from Loss of Earnings, $274 million from Health Care, $131 million from Workers' Pensions and $241 million from all other benefits.
3. Change in valuation basis includes:
    a. Long-term inflation assumption being reduced by 0.5% from 2.5% to 2.0%, impact of $409 million;
    b. Updated mortality study, impact of $343 million;
    c. Updated occupational disease assumptions and methods, impact of $114 million; and
    d. Refinement of expected incidence for future FEL awards, impact of $30 million.

Administration and other expenses

Administration and other expenses, before allocation to benefit costs, were $806 million, a modest increase of $15 million or 1.9% notwithstanding absorbing $9 million of inflationary pressures. As a result of aggressive cost management, our full-time staff level decreased modestly while we continue to invest in improved return to work outcomes and support our transformational activities. A summary of changes in administration and other expenses for the years ended December 31 is as follows:

(millions of Canadian dollars)	2013	2012	Change $	Change %
Salaries and short-term benefits	373	367	6	1.6
Long-term benefit plans	189	181	8	4.4
Depreciation and amortization	22	43	(21)	(48.8)
Bad debts	39	25	14	56.0
Communications	10	10	-	-
Equipment and maintenance	48	36	12	33.3
Facilities	43	44	(1)	(2.3)
Impairment of intangible assets	-	5	(5)	(100.0)
New systems development and integration	21	22	(1)	(4.5)
Termination benefits	18	29	(11)	(37.9)
Other	43	29	14	48.3
	806	791	15	1.9
Claim administration costs allocated to benefit costs	(445)	(458)	13	(2.8)
Total administration and other expenses	**361**	**333**	**28**	**8.4**

- Salaries and short-term benefits increased $6 million or 1.6% reflecting aggressive cost management initiatives including a decrease of 26 full-time staff notwithstanding our investment in transformational efforts and absorbing $9 million of inflationary pressure.
- Long-term benefit plans increased $8 million reflecting a 35 basis point reduction in interest rates used to value our pension and other post-retirement obligations, partially offset by other changes in actuarial assumptions.
- Depreciation and amortization decreased $21 million reflecting accelerated amortization of intangible assets in 2012.
- Bad debts increased $14 million reflecting $323 million of higher gross premiums and an update of the methodology for estimating collectability.
- Communications expenses were unchanged.
- Equipment and maintenance expenses increased $12 million to allow us to bring our IT systems to best-in-class standards.
- Facilities expense decreased $1 million due to lower real estate taxes.
- Impairment of intangible assets decreased $5 million reflecting the impairment of intangible assets in 2012.
- New systems development and integration expenses decreased $1 million reflecting a lower amount of business transformation project costs being expensed.
- Termination benefits decreased $11 million due to staff reductions in 2013.
- Other expenses increased $14 million reflecting a one-time provision related to prior years Retail Sales Tax.
- Refer to Section 4 – Operating Results for a detailed discussion of claim administration costs.

Legislated obligations and funding commitments

Legislated obligations were $286 million, an increase of $10 million or 3.6%, as follows:

			Change	
(millions of Canadian dollars)	2013	2012	$	%
Legislated obligations				
Occupational Health and Safety Act	95	86	9	10.5
Ministry of Labour Prevention Costs	102	76	26	34.2
	197	162	35	21.6
Workplace Safety and Insurance Appeals Tribunal	22	22	0	0.0
Workplace Safety and Insurance Advisory Program	1	1	0	0.0
Office of the Workers' Adviser	11	12	(1)	(8.3)
Office of the Employers' Adviser	4	4	0	0.0
	38	39	(1)	(2.6)
Total legislated obligations	**235**	**201**	**34**	**16.9**
Funding commitments				
Safe Workplace Associations	(1)	17	(18)	100+
Workplace Health and Safety Centre	0	2	(2)	(100.0)
Health clinics	0	2	(2)	(100.0)
Grants	2	4	(2)	(50.0)
Institute for Work and Health	0	5	(5)	(100.0)
Safety program rebates	50	45	5	11.1
Total funding commitments	**51**	**75**	**(24)**	**(32.0)**
	286	**276**	**10**	**3.6**

On April 1, 2012, the MoL assumed responsibility for prevention activities which were previously carried out by the WSIB. Accordingly, $27 million previously incurred by the WSIB for prevention activities recorded as funding commitments are now included as legislated obligations.

In 2013, legislated obligations and funding commitments were $286 million, an increase of $10 million or 3.6% compared to 2012 primarily due to an increase in OHSA costs reflecting a one-time credit of $6 million received from the MoL in 2012 and $5 million of incremental cost to extend the Safety Group Programs to Safety Group graduates as an interim transitional measure until new programs are introduced by the Province, offset by $1 million of other items. On a system-wide basis prevention costs decreased by $1 million.

5. Financial Condition

A discussion of the significant changes in our December 31, 2013 consolidated statement of financial position.

Changes in our consolidated statement of financial position are as follows:

			Change		
(millions of Canadian dollars)	**2013**	**2012**	**$**	**%**	**Commentary**
Assets					
Cash and cash equivalents	1,274	1,331	(57)	(4.3)	See Section 8 - Liquidity and Capital Resources.
Receivables	1,168	1,168	-	-	No significant changes.
Equity securities	8,567	7,707	860	11.2	See Section 4 – Operating Results. Increases due to change in fair values and cash transferred to the investment portfolio.
Bonds	5,448	5,058	390	7.7	
Other invested assets	5,893	4,044	1,849	45.7	
Property and equipment	133	147	(14)	(9.5)	Decrease reflects annual depreciation.
Intangible assets	27	17	10	58.8	Increase reflects investment in transformation initiatives.
Liabilities					
Payables and accruals	1,090	1,076	14	1.3	Increase reflects provision for experience rating rebates.
Derivative liabilities	78	88	(10)	(11.4)	Decrease reflects changes in our currency and futures positions within our investment portfolio.
Long-term debt	168	169	(1)	(0.6)	No significant changes.
Loss of Retirement Income Fund liability	1,538	1,377	161	11.7	Increase due to fair value appreciation of investments.
Employee benefit plans liability	920	1,670	(750)	(44.9)	Decrease primarily reflects gains due to actuarial assumption changes and experience.
Benefit liabilities	26,960	27,050	(90)	(0.3)	See Section 4 - Operating Results. Changes in actuarial methods and assumptions.
Unfunded liability	(10,638)	(14,061)	3,423	(24.3)	Comprehensive income attributable to WSIB stakeholders.

6. Reconciliation of the change in the Unfunded Liability

An explanation and discussion about the changes to the 2013 Unfunded Liability.

Premiums charged to employers are designed to offset the expected claims and associated administrative costs for injuries occurring in the current fiscal year and to retire our unfunded liability ("UFL") in accordance with *Ontario Regulation 141/12*. Accordingly, we assess our financial results for both the current injury year to ensure we are funding all current year costs as well as those of prior injury years to ensure we are taking appropriate steps to retire our UFL in accordance with our statutory requirements.

Set forth below is a segmentation of our operating results between the "Current injury year" or 2013 and "Prior injury years".

(millions of Canadian dollars)	**Total**	**Current injury year**	**Prior injury years**
Revenues			
Premiums[1]	4,467	3,031	1,436
Net mandatory employer incentive programs[2]	(80)	-	(80)
	4,387	3,031	1,356
Net investment income[3]	2,042	127	1,915
	6,429	**3,158**	**3,271**
Expenses			
Benefit costs			
Benefit payments[4]	2,518	169	2,349
Claim administration costs[5]	445	213	232
Change in actuarial valuation of benefit liabilities[6]	(90)	1,516	(1,606)
	2,873	**1,898**	**975**
Loss of Retirement Income Fund contributions[7]	62	-	62
Administration and other expenses[8]	361	361	-
Legislated obligations and funding commitments[9]	286	286	-
	3,582	**2,545**	**1,037**
Remeasurement of employee defined benefit plans[10]	840	52	788
Total comprehensive income	**3,687**	**665**	**3,022**
Non-controlling Interests[11]	(264)	(16)	(248)
Total comprehensive income attributable to WSIB stakeholders	**3,423**	**649**	**2,774**

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1. Calculated based on new claim and administrative and other costs for the 2013 Injury Year.
2. Represents retrospective refunds arising from favourable experience for prior years.
3. The estimated current injury year's net investment income is calculated based on net cash flow reflecting premium revenues not required for benefit payments in the current injury year.
4. Determined based on injury year for each payment.
5. Current year claims administration costs are calculated by applying appropriate expense factors to actual claims cash flows for the 2013 injury year.
6. Determined based on opening and closing liabilities by injury year.
7. Payments relate to prior years as Loss of Retirement Income Fund contributions are only made once a worker has been injured and on benefits for more than one year.
8. Costs attributed solely for the current year.
9. Relate entirely to current year.
10. Relate primarily to prior injury years.
11. Same proportionate split as net investment income.

As noted above, premium revenues for the current injury year were sufficient to offset current year injury and administrative costs. We believe this result reflects our disciplined approach to premium rate setting and strong oversight of benefit and administrative cost management. In addition, as a result of favourable claims experience and investment returns, we were able to make demonstrable progress towards retiring the UFL.

Set forth below is a reconciliation of the movement in the UFL in 2013 reflecting actuarial gains and losses as well as assumption and actuarial standard changes. A more detailed discussion of the actuarial gains and losses are contained in note 19 of the consolidated financial statements.

(millions of Canadian dollars)	**2013**
Unfunded liability as at December 31, 2012	**14,061**
Interest carrying charge on UFL[1]	772
Premium payment to reduce UFL	(1,436)
Expected UFL at December 31, 2013	13,397
Gain from investment return higher than expected[2]	(1,277)
Gain from remeasurement of employee benefit plans	(540)
Gains and losses on claims/ operations	
Current year claims cost lower than expected	(649)
Net mandatory employer incentive programs	80
Prior year claims cost lower than expected	(1,352)
Net Actual Gains	(3,738)
Changes in Assumptions for Future Cost on Existing Claims	
Liability discount rate reduced to 5.0% to 2017	941
Reduced cash flows from long-term inflation decrease	(532)
New mortality improvements	343
Changes in occupational disease assumptions and methods	114
Strengthening of FEL assumptions	30
Net Liability Increase from Assumption Changes	896
Actuarial Standard Change	
Increased liability for occupational disease exposure	83
Unfunded liability as at December 31, 2013	**10,638**

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1. The UFL represents the shortfall of current asset values from the discounted value of expected future payments in respect of injuries occurring in previous injury years. This shortfall represents an interest cost and must be taken into account in this reconciliation.
2. The expected investment return in 2013 was 6.0%. Investment experience, on an actuarial basis, was better than expected during 2013, leading to additional investment gains which also contributed to a reduction in the UFL.

As noted above, the UFL decreased $3,423 million in 2013 reflecting both strong operating performance and favourable claims experience relative to our long-term expectations. We continue to closely monitor these factors to ensure we achieve our legislated funding obligations.

7. Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended December 31, 2013 is as follows:

	2013				2012[5]			
(millions of Canadian dollars)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net premiums	1,034	1,149	1,113	1091	988	1,068	1,068	982
Net investment income (loss)	894	532	(106)	722	433	488	(165)	703
Benefit costs								
Benefit payments	629	613	636	640	649	637	673	705
Claim administration costs	109	109	118	109	128	101	104	125
Change in actuarial valuation of benefit liabilities	(330)	(100)	144	196	512	8	150	(10)
	408	622	898	945	1,289	746	927	820
Loss of Retirement Income Fund contributions	15	16	15	16	17	16	17	17
Administration and other expenses	108	85	84	84	102	71	77	83
Legislated obligations and funding commitments	71	72	64	79	80	77	48	71
Excess (deficiency) of revenues over expenses	1,326	886	(54)	689	(67)	646	(166)	694
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	308	202	224	106	18	(89)	(166)	74
Total comprehensive income (loss)	1,634	1,088	170	795	(49)	557	(332)	768
Total comprehensive income (loss) attributable to WSIB stakeholders	1,523	1,020	178	702	(107)	493	(315)	675
Other measures								
Core Earnings[1]	102	254	196	163	12	166	149	(19)
Unfunded liability[2]	10,638	12,161	13,181	13,359	14,061	13,954	14,447	14,132
Funding ratio (%)[3]	65.4	61.1	58.1	57.5	55.3	54.9	53.0	53.3
Return on investments (%)[4]	5.0	3.1	(0.5)	4.5	2.8	3.4	(1.0)	5.1

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1. Core Earnings (Loss) is calculated as total comprehensive income (loss) excluding the impacts of net investment income (loss), changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 16 – Non-IFRS Financial Measure.
2. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
3. Funding ratio is calculated as total assets, excluding non-controlling interests in investments, divided by total liabilities at the reporting date.
4. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses. Does not equal annual figures due to rounding.
5. Comparative figures for 2012 have not been adjusted for the changes in accounting policies adopted in 2013. See Section 10 – Changes in Accounting Policies.

Notable items affecting our fourth quarter 2013 results compared to the fourth quarter 2012 are as follows:

- Premiums were $1,034 million compared to $988 million, an increase of $46 million or 4.7%, reflecting a $76 million increase in gross premiums offset by a $21 million increase in our mandatory employer incentive programs reflecting improved return to work outcomes and a $7 million decrease in other income attributable to a one-time litigation settlement in 2012.
- Net investment income was $894 million representing a 5.0% return on investments compared to $433 million or 2.8%, an increase of $461 million primarily attributed to higher income from public equities.
- Benefit payments were $629 million compared to $649 million, a decrease of $20 million or 3.1%, reflecting improved recovery and return to work outcomes for injured workers.
- Claim administration costs were $109 million compared to $128 million, a decrease of $19 million or 14.8% reflecting the allocation of administration and other expenses between benefit costs and administration and other expenses.
- The actuarial valuation of benefit liabilities decreased $330 million compared to an increase of $512 million, reflecting lower than expected costs which resulted in a reduction of $1,076 million, partially offset by changes made to valuation methods and assumptions which added $746 million that include a long-term inflation change drop of 0.5% from 2.5% to 2.0%, updated mortality study, and refinement of expected incidence for future FEL awards.
- Loss of retirement income fund contributions were $15 million, a decrease of $2 million reflecting lower contributions due to lower loss of earnings and future economic loss benefit payments.
- Administration and other expenses, before allocation to benefit costs, were $217 million compared to $230 million, a decrease of $13 million or 5.7% reflecting a $21 million decrease in amortization expense due the accelerated amortization of intangible assets in 2012 and a $10 million decrease attributed to lower long-term benefit plan expenses, partially offset by $11 million of higher equipment and maintenance expenses reflecting our investment in IT systems and $7 million of higher termination benefits expenses.
- Legislated obligations and funding commitments were $71 million compared to $80 million, a decrease of $9 million or 11.3 %, reflecting the timing of payments made to the MoL.

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, particularly in the construction industry, which had higher insurable earnings in 2013 due to increased construction projects supported by strengthening economic conditions. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by global capital markets and has been volatile on a quarterly basis. We anticipate the volatility in net investment income will continue into 2014.

Refer to Section 4 – Operating Results for a discussion of the current annual results.

8. Liquidity and Capital Resources

A discussion of cash flow, liquidity, credit facilities and other arrangements.

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy benefit payments and operating expenses. As at December 31, 2013, we held $1,274 million of cash and cash equivalents of which $740 million was held for investing, $364 million was held for operating purposes, and $170 million was held in our loss of retirement income fund on behalf of injured workers.

(millions of Canadian dollars)	**2013**	**2012**
Cash and cash equivalents, beginning of year	1,331	983
Cash provided by operating activities	821	436
Cash used in investing activities	(865)	(72)
Cash used in financing activities	(13)	(16)
Cash and cash equivalents, end of year	**1,274**	**1,331**

For the year ended December 31, 2013, cash provided by operating activities was $821 million compared to $436 million for the comparable period in 2012 reflecting continued improvements in operating performance. Cash used by investing activities was $865 million compared to $72 million for the comparable period in 2012 primarily due to additional investments. Cash used in financing activities was $13 million compared to $16 million for the comparable period in 2012, reflecting net distributions paid to non-controlling interests.

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at December 31, 2013, we had not utilized any of this credit facility.

Commitments

a) Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(millions of Canadian dollars)	**Minimum lease payments**
Not later than one year	15
Later than one year and not later than five years	20
Later than five years	13
	48

b) The WSIB had the following commitments related to its investment portfolio:

(millions of Canadian dollars)	**2013**	**2012**
Real estate, multi-asset and infrastructure investments	606	491
Investments in associates and joint ventures	198	222
Purchase or development of investment properties	197	-
	1,001	**713**

c) Other commitments

The WSIB has commitments over the next five years under non-cancellable contracts for purchases of goods and services with minimum future payments of $nil.

9. Critical Accounting Estimates and Judgments

A description of the critical accounting estimates and judgments that affect the measurement and presentation within the consolidated financial statements.

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Changes in these estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Employee benefit plans

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Fair value measurement of financial instruments

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 21 of the consolidated financial statements provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

Fair value measurement of investment properties

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third-party appraisals are performed at varying dates through the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the property.

10. Changes in Accounting Policies

A discussion of new and amended IFRS developments that will or might have an effect on our consolidated financial statements.

The WSIB has applied the following new or amended accounting standards, effective January 1, 2013. The resulting changes in accounting policies have been made in accordance with the applicable transitional provisions.

IAS 19 *Employee Benefits* ("IAS 19")

The amendments to IAS 19 revise certain accounting requirements related to defined benefit plans.

The amended standard eliminates the corridor method as an alternative approach to recognizing actuarial gains and losses. Under the amendments, the effect of all actuarial gains and losses are immediately recognized in other comprehensive income. Previously, the WSIB recognized actuarial gains and losses using the corridor method; net actuarial gains and losses over a certain threshold were deferred and recognized in expenses on a straight-line basis over the average remaining service period of active plan members.

The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the net liability by the discount rate used to measure the net defined benefit obligation.

Changes in the defined benefit obligations and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities.

The amended standard was applied retrospectively and had the following effect on the consolidated financial statements:

	December 31 2013	December 31 2012	January 1 2012
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	10,699	13,299	14,222
(Decrease) increase in employee benefit plans liability	(61)	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**10,638**	**14,061**	**14,807**

	2013	2012
Excess of revenues over expenses prior to change in accounting policy	2,864	1,121
Increase in employee benefit expense	(17)	(14)
Excess of revenues over expenses after change in accounting policy	**2,847**	**1,107**

	2013	2012
Total comprehensive income prior to change in accounting policy	2,864	1,121
Increase in employee benefit expense	(17)	(14)
Remeasurements of defined benefit plans	840	(163)
Total comprehensive income after change in accounting policy	**3,687**	**944**

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 is a new standard, replacing the previous guidance for assessing when the WSIB controls, and therefore is required to consolidate, an investee.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. There have not been significant changes to the accounting requirements applied when an investee is consolidated.

The WSIB has assessed its investees under the requirements of IFRS 10 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")

IFRS 11 is a new standard, replacing the previous guidance related to joint arrangements.

The new standard requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures are accounted for using the equity method of accounting whereas a party with joint control of a joint operation recognizes its share of the assets, liabilities, revenues and expenses of the joint operation.

The WSIB has assessed its joint arrangements under the requirements of IFRS 11 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

IFRS 12 *Disclosures of Interest in Other Entities* ("IFRS 12")

IFRS 12 is a new standard establishing disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 12 carries forward existing disclosures and also introduces additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements. The WSIB has amended its financial statement note disclosures to reflect the requirements of IFRS 12. These disclosures are included in note 25 of the consolidated financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 is a new standard that sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value.

IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The WSIB has assessed its fair value measurements under the requirements of IFRS 13 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements. The WSIB has amended its financial statement note disclosures to reflect the new disclosure requirements of IFRS 13.

11. Recent Accounting Pronouncements

A discussion of new and amended IFRS developments that will or may impact our consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 and November 2013 as part of the International Accounting Standards Board's (the "IASB") ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The effective date IFRS 9 has not yet been determined, but is not expected to be effective for the WSIB any earlier than January 1, 2016.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carries forward the existing requirements in IAS 39. IFRS 9 was further amended on November 15, 2013 to introduce new guidance related to hedge accounting.

The IASB has proposed further amendments including a third financial asset category fair value through other comprehensive income for certain investments in debt securities, as well as amendments that address impairment.

IAS 32 *Financial Instruments Presentation* ("IAS 32")

Amendments to IAS 32 were issued in December 2011. The amended IAS 32 will be effective for the WSIB beginning January 1, 2014.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments.

IAS 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in November 2013, which will be effective for the WSIB beginning January 1, 2015.

The amendments to IAS 19 clarify the accounting for contributions by employees or third parties to defined benefit plans.

Exposure drafts

a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

12. Legal Contingencies

A discussion of our legal proceedings, claims and other legal contingencies.

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

13. Outlook

The outlook for our business.

The following contains forward-looking statements about the outlook for our business. Reference should be made to Section 18 – Forward-Looking Statements at the end of this MD&A. For a description of risk factors that could cause our actual results to differ materially from the forward-looking statements in the following, please also see Section 14 – Risk Factors in this MD&A and note 23 – Financial Risk Management in our consolidated financial statements.

Premiums

Premium revenues are anticipated to increase modestly reflecting an assumed 1.0% increase in employment growth and a 2.0% increase in average wages. While average premium rates in 2014 are anticipated to remain unchanged from the prior year, employers continue to contribute towards retiring the unfunded liability.

Net investment income

Net investment income is anticipated to reflect a 6.0% return on assets, consistent with our long-term planning assumption. We will continue to implement our Strategic Investment Plan in a way that permits us to take advantage of investment opportunities without exposing us to a higher level of volatility and corresponding investment risk.

Benefit payments

Benefit payments are anticipated to be $2.4 billion, the fourth consecutive year of decreasing benefit payments reflecting continued sound operating practices and modestly lower loss-time injury levels, We caution readers that the level of benefit payments may rise in the event that new types of compensable claims are promulgated.

Administration and other expenses

Administration and other expenses are anticipated to remain stable in 2014.

Legislated obligations and funding commitments

Legislated obligations and funding commitments are anticipated to be $303 million, an increase of $17 million or 5.9% reflecting an $11 million increase for the full cost of transitioning prevention activities to the MoL combined with a $6 million increase in safety program rebates. On a system wide basis, prevention costs are anticipated to be substantially unchanged from 2013.

Unfunded liability

We anticipate the unfunded liability will continue to decrease, based on current funding and benefit levels, and as measured under current accounting and actuarial standards as a result of continued operational excellence.

14. Internal Control over Financial Reporting

A statement of responsibilities regarding internal control over financial reporting.

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the annual report and ensuring its consistency with the consolidated financial statements.

15. Risk Factors

A discussion of the more significant risk factors affecting our business.

Introduction

We face a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties we face. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected. While we employ a broad and diversified set of risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every outcome or the specifics and timing of such outcomes.

Below are the financial, operational, regulatory and political risks we monitor and mitigate within our span of control.

Financial risks

Benefit liabilities

The WSIB, as the trust agency for administering the Province's compensation system, must ensure there is adequate provision of funds to cover the cost of future claims. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors. (See Section 9 – Critical Accounting Estimates and Judgments)

Establishing an appropriate level of benefit liabilities is, therefore, an inherently uncertain process which presents a number of risks that could adversely affect our comprehensive income and financial condition.

The risks are predominantly related to:

- the failure to accurately make assumptions and assess the factors of claims costs which may result in setting premium rates that are inadequate to cover costs and contribute to the reduction of the unfunded liability; and
- unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate.

We mitigate these risks:

- by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns;
- with regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability;
- by engaging external actuaries to review actuarial assumptions and methodologies in establishing benefit liabilities; and

- by reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and Chief Statistician.

Investment risks

Our ability to meet our long-term obligations is dependent upon the sufficiency of our investment fund. The risks to our investment fund relate to liquidity, credit and the market. Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the fund is established. This risk would be manifest in the failure to achieve a net return of at least the long-term actuarial discount rate of 5.5% (5.0% to 2017 and 5.5% thereafter) over a horizon of rolling 10 to 15 year periods.

Our primary risk mitigation tool is the diversification of investment return sources as provided for in our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for their approval.

Liquidity risk

Liquidity risk is the risk we will encounter difficulty in meeting obligations associated with financial liabilities.

We mitigate this risk by:

- investing the majority of our assets in readily marketable instruments (publicly traded equity and fixed income securities) while the remainder of our investments are in multi-asset, real estate and infrastructure investments that provide diversification;
- maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements; and
- maintaining a $150 million unsecured credit facility, which we can utilize to manage our liquidity needs.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. We are exposed to several types of credit risks including:

- risk that our fixed income investments, consisting primarily of investment grade debt instruments, may become impaired;
- counterparty risk relating to our securities lending and foreign currency programs;
- credit loss due to schedule 1 employers not settling their premiums receivable and schedule 2 employers not reimbursing the WSIB for their respective claim costs; and
- the risk that the Canadian life insurance companies, that enter into annuity agreements with the WSIB to provide for fixed and recurring payments to claimants, may fail to fulfill their obligations.

We manage our credit risk by:

- holding a diversified portfolio of debt instruments including a predominant component that is invested in government-issued bonds, to mitigate the risks of defaulting fixed-income investments;
- mitigating securities lending counterparty risk through adopting a pre-approved qualified borrower list and through exposure limits; by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety; and receiving indemnities from the financial institution that operates the securities lending program;
- mitigating foreign currency counterparty risk through an approved list of counterparties, credit rating limits, counterparty diversification and frequency of settlements; and

- holding collateral from some Schedule 2 employers in the form of letters of credit issued by highly rated Canadian financial institutions.

Market risk

There are three types of market risk we are exposed to including currency risk, interest rate risk and price risk:

- currency risk is the risk of loss due to adverse movements in foreign currency rates relative to the Canadian dollar;
- interest rate risk is the potential for financial loss arising from changes in interest rates; and
- price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

We apply various measures to mitigate the risks:

- using foreign exchange contracts to hedge a portion of currency exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception;
- reviewing interest rate risk through periodic asset liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify the WSIB's exposure to the impact of changes in interest rate levels; and
- diversifying our investment portfolio in accordance with our investment policies. Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry and economic and political conditions, which may impact the issuers' ability to meet contractual commitments.

Operating Risks

Strategy

Potential risks to our strategy include factors such as:

- delays in implementing new technologies;
- unforeseen costs;
- organizational capacity insufficient to support new strategic initiatives while meeting the demands of ongoing operations; and
- competing stakeholders' priorities.

To help mitigate these risks, we have established:

- a corporate business plan that establishes priorities and an enterprise road map to ensure we have the right resources dedicated to executing the plan effectively and efficiently;
- a project portfolio governance framework to ensure project-management rigour and management accountability; and
- regular and ongoing stakeholder engagement to provide feedback, keep us informed, and provide opportunities for developing solutions.

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks, including:

- low or modest growth in the Province's employment levels, especially in covered industries, may result in not meeting premium revenue targets as well as limiting work transition opportunities;
- the growth in industries that are not required to have coverage under the WSIA may negatively impact the unfunded liability;
- the trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs; and
- a growing number of older workers in the workforce. If injured, they generally have a longer recovery time and greater challenge with return to work.

We mitigate these risks by:

- conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector;
- continuous monitoring and researching the job market for available, sustainable positions for injured workers ready to transition to the job market;
- providing return to work and health care intervention programs to support injury recovery and sustainable return to work; and
- enhancing the work transition services for injured workers facing return to work obstacles, such as English as a second language and limited work experience, by providing enhanced employment placement services.

Claims management

Operational performance is reflected in how efficiently and effectively cases are managed and how closely their outcomes meet operational objectives. A number of risks can impact negatively on performance including:

- any rise in the lost-time injury rate will result in an increased volume of incoming claims and increased pressure on front-line resources;
- unexpected sources, volume or complexity of claims may arise, such as those arising from certain occupational diseases potentially putting increased cost pressure on the system;
- the development and implementation of transformation initiatives will put strain on organizational capacity and performance while front-line staff are focussed on developing, and then adapting to, new systems and processes; and
- any operating impacts causing delays in timely health care treatment and return to work services would increase the potential for longer claim durations, development of permanent impairments and ultimately increased claims costs.

We mitigate these risks by:

- supporting the reduction of workplace injuries and illnesses through our participation on the Chief Prevention Officer's Prevention Council; the provision of data to aid in the identification of priorities, and the provision of funding for the administration of the OHSA and support of the Province's health and safety associations and research;
- regularly monitoring and prioritizing project and operational needs to maximize organizational capacity;
- building business readiness plans to ensure successful transition and adoption of new systems and processes; and

- monitoring the quality and timeliness of services through a series of key performance measures and taking corrective action when trending of results is not in line with expectations.

Business interruption

Our stakeholders rely on our ability to operate the system, without interruption. Our continuity of business may be subject to a number of risks such as:

- unforeseeable and/or catastrophic events to resources or infrastructure, such as a global flu pandemic or a power failure, may abruptly interrupt business activities and result in losses that could be related to financial assets and key personnel;
- if our business continuity plans are inadequate, losses may increase further;
- our continued use of older system technology and back-up procedures to administer core business activities could result in impacts to our operations and in the potential loss of critical information should those systems fail; and
- while a five-year technology incremental recovery plan was initiated in 2007 it has not succeeded in establishing a permanent capability to run business operations in the event of a critical event failure. Further investment of funds, resources and systems would be necessary in order to develop and implement a disaster recovery program, if, in fact, one could be established. A number of our systems are very old and proving difficult to replicate for this recovery plan.

In order to mitigate the risks and maintain the integrity and continuity of our operations in the event of a crisis:

- we have an Enterprise Business Continuity Plan and Program in place to ensure we can continue to operate during business disruptions or emergencies. We are in the process of refreshing the plans given transformational changes that have been ongoing in the organization; and
- we are in the process of building replacement systems with planned robust recovery capabilities, targeted for implementation beginning in 2014.

Our workforce and workplace

We remain actively engaged in transforming our business and ensuring we have the right people, work processes and technology to support our vision. The transformation is part of our long-term business strategy to modernize the WSIB and become a more effective and efficient organization, delivering increased value to Ontario employers and workers.

Important elements in realizing organizational outcomes include our ability to attract and retain skilled resources now and in the future, and the ability of WSIB leadership to lead organizational change. Without these components, the organization risks slowed or less sustainable transformation.

These risks are being been mitigated through:

- added rigour in human resources' planning process, including continuous alignment of WSIB's human resource strategy with business strategy;
- building leadership capacity through structured management programs and through the provision of targeted leader support throughout the transformation process;
- expanding diversity and inclusion initiatives and measuring and implementing action plans to increase employee engagement;
- ensuring the right resourcing at the right time through the expansion of creative sourcing strategies for business critical roles and continuing workforce and succession planning activities;
- enhancing our safe and healthy workplace through updating our business continuity plans, launching new security programming, and a focus on mental health support as the next steps in our healthy workplace journey;

- providing a modernized total rewards program, balancing the need for the right talent and program sustainability; and
- increasing efficiency and value through providing enhanced technology and automation, human resources process improvements, and by measuring and enhancing service levels.

Technology

Given the high volume of transactions processed daily, we are reliant on technology and third parties that provide certain key components of our business infrastructure such as voice and data communications and network access. This presents a number of risks for the WSIB, mainly:

- failure of our technology and third-party systems could interrupt our operations and impact our ability to deliver services and benefits; and
- a security breach of our information systems could put sensitive data at risk, and result in reputational risk and potential liability given that they are used to maintain confidential information regarding our business, injured workers and employer firms.

To mitigate these risks:

- we have taken steps to secure our facilities and infrastructure with a series of security protocols for accessing technology;
- we ensure that third parties are legally bound to the WSIB's standards and requirements for security of systems, privacy, and strict confidentiality of information through contractual protection;
- the WSIB and third party providers have contingency plans for ensuring continued operations should any of their systems fail; and
- our staff have been provided training to ensure hardware and mobile devices are not compromised in the event they are stolen, lost or accessed without authorization.

Regulatory, political and other influences

Our business is subject to changing legal, regulatory and other influences. Any amendments to the *Workplace Safety and Insurance Act* or other legislation could require the WSIB to make adjustments. For example, changes in law or regulations can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes. Further, political and stakeholder influences and competing interests, may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate this risk by:

- engaging with the Minister and the MoL to understand the intent of any legislative or regulatory changes and to consult on the potential impact to outcomes and capacity;
- accurately costing any legislative or regulatory changes to ensure that the impact of any change is fully understood;
- consulting with our stakeholder community during the planning and implementation of any legislative or regulatory changes, as well as WSIB program and policy changes; and
- ensuring that any changes to existing policies and programs are developed and implemented and that they align with our value propositions and organizational capabilities.

16. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

Core Earnings

In 2012, we introduced "Core Earnings", a non-IFRS financial measure to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings are defined as comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other organizations.

Set forth below is the reconciliation of Core Earnings and comprehensive income, the most directly comparable financial measure calculated and presented in consistent with IFRS:

(millions of Canadian dollars)	2013	2012
Comprehensive income for the year	3,687	944
Less: Net investment income	(2,042)	(1,459)
(Less)/Add: Change in actuarial valuation of benefit liabilities	(90)	660
(Less)/Add: Change in actuarial valuation of employee benefit plans	(840)	163
Core Earnings	**715**	**308**

17. Related Party Transactions

A discussion of related party transactions and their relationship to our business.

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund the WSIAT and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister. The WSIB is also committed to providing funding for the Institute for Work and Health and the Safe Workplace Associations, clinics, and training centres. The total funding provided under these legislated obligations and funding commitments for the year ended December 31, 2013 was $286 million compared to $276 million.

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents as legislated obligations in the consolidated statements of comprehensive income (loss), the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,083 million compared to $960 million.

18. Forward-looking Statements

Caution regarding forward-looking statements.

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words, such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements relate to, among other things, our future results, levels of activity, performance, goals or achievements or other future events. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other changes announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

RESPONSIBILITY FOR FINANCIAL REPORTING

Role of Management

The accompanying consolidated financial statements are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements include amounts based on management's best estimates and judgments.

Management is responsible for the preparation and fair presentation of these consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal controls.

Role of the Chief Actuary

With respect to the preparation of the consolidated financial statements, the Chief Actuary works with the WSIB actuarial staff to prepare a valuation, including the selection of appropriate assumptions applicable to the WSIB's benefit liabilities at the consolidated statement of financial position date to determine the valuation of benefit liabilities. Additionally, the Chief Actuary provides an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the date of the consolidated statement of financial position. The work to form that opinion includes an examination of the sufficiency and reliability of data and a review of the valuation processes. The Chief Actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the Chief Actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The Chief Actuary's report outlines the scope of the valuation and his opinion.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The external auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.

I D Marshall

I. David Marshall
President and Chief Executive Officer
April 24, 2014
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,

The Minister of Labour and the Auditor General of Ontario

Pursuant to the *Workplace Safety and Insurance Act, 1997* (Ontario), which provides that the accounts of the Workplace Safety and Insurance Board (the "WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in deficiency of assets, and cash flows for the year ended December 31, 2013, and the notes to the financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the **Workplace Safety and Insurance Board** as at December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the **Workplace Safety and Insurance Board** for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those statements on April 25, 2013.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
April 24, 2014

ACTUARIAL OPINION

On the Valuation of the Benefit Liabilities of the Workplace Safety and Insurance Board as at December 31, 2013

I have completed the actuarial valuation of the benefit liabilities of the Workplace Safety and Insurance Board (WSIB) for its consolidated statements of financial position as at December 31, 2013 (the "valuation date").

In my opinion, the benefit liabilities of $26,960 million make reasonable provision for future payments for loss of earnings, other short and long term disability, health care, survivor and retirement income benefits with respect to claims which occurred on or before the valuation date, and for occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WSIB. This amount provides for future claim administration costs, but does not include a provision for claims related to workers of Schedule 2 employers.

The valuation was based on the provisions of the Workplace Safety and Insurance Act (Ontario), 1997 and on the WSIB's policies and administrative practices in effect at the time of the valuation.

The data on which the valuation is based were provided by the WSIB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and are consistent with WSIB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities have been selected taking account of the WSIB's strategic plan and investment policies. For this valuation, an annual discount rate of 5.00% for 2014 to 2017 (5.50% for the previous valuation) and 5.50% thereafter (6.00% for the previous valuation) was used to discount expected payments. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.00% (2.50% for the previous valuation), amounts subject to partial indexing to increase at 0.5% annually, health care costs and wage annual escalation rates of 4.00% (4.50% for the previous valuation) and 3.00% (3.50% for the previous valuation) respectively. In my opinion, the assumptions are appropriate for the purpose of the valuation.

The methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WSIB's claims experience, mortality and other assumptions. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.

Changes to the actuarial basis, in addition to those to economic assumptions mentioned above, include new mortality tables and future mortality improvement rates. The impact of the changes in actuarial assumptions and methods on the benefit liabilities is disclosed in note 18 to the consolidated financial statements.

Details of the data, actuarial assumptions, valuation methods and analysis of results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Donald Blue, FCIA, FSA
Vice-President and Chief Actuary
Workplace Safety and Insurance Board
April 24, 2014

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Financial Position

(millions of Canadian dollars)

	Note	December 31 2013	December 31 2012	January 1 2012
Assets				
Cash and cash equivalents	9	1,274	1,331	983
Receivables		1,168	1,168	1,156
Equity securities	10	8,567	7,707	6,875
Bonds	10	5,448	5,058	5,337
Other invested assets	10	5,893	4,044	2,849
Property and equipment	14	133	147	159
Intangible assets	15	27	17	50
Total assets		**22,510**	**19,472**	**17,409**
Liabilities				
Payables and accruals		1,090	1,076	1,100
Derivative liabilities	10	78	88	27
Long-term debt	16	168	169	143
Loss of Retirement Income Fund liability	17	1,538	1,377	1,254
Employee benefit plans liability	18	920	1,670	1,397
Benefit liabilities	19	26,960	27,050	26,390
Total liabilities		**30,754**	**31,430**	**30,311**
Deficiency of assets				
Unfunded liability attributable to WSIB stakeholders		(10,638)	(14,061)	(14,807)
Non-controlling interests	25	2,394	2,103	1,905
Total deficiency of assets		**(8,244)**	**(11,958)**	**(12,902)**
Total liabilities and deficiency of assets		**22,510**	**19,472**	**17,409**

Commitments and contingent liabilities (note 20)

Approved by the Board of Directors

Elizabeth Witmer
Chair

Lea Ray
Audit and Finance Committee (Chair)

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Comprehensive Income

For the years ended December 31
(millions of Canadian dollars)

	Note	2013	2012
Revenues			
Premiums	7	4,467	4,136
Net mandatory employer incentive programs	7	(80)	(30)
		4,387	4,106
Net investment income			
Investment income	10	2,184	1,570
Investment expenses	10	(142)	(111)
		2,042	1,459
		6,429	**5,565**
Expenses			
Benefit costs			
Benefit payments	19	2,518	2,664
Claim administration costs	8	445	458
Change in actuarial valuation of benefit liabilities	19	(90)	660
		2,873	3,782
Loss of Retirement Income Fund contributions	17	62	67
Administration and other expenses	8	361	333
Legislated obligations and funding commitments	24	286	276
		3,582	**4,458**
Excess of revenues over expenses		**2,847**	**1,107**
Other comprehensive income (loss)			
Remeasurements of employee defined benefit plans	18	840	(163)
Total comprehensive income		**3,687**	**944**

		2013	2012
Excess of revenues over expenses attributable to:			
WSIB stakeholders		2,583	909
Non-controlling interests	25	264	198
		2,847	**1,107**
Total comprehensive income attributable to:			
WSIB stakeholders		3,423	746
Non-controlling interests	25	264	198
		3,687	**944**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Changes in Deficiency of Assets

For the years ended December 31

(millions of Canadian dollars)

		Deficiency of assets		
	Note	**Unfunded liability attributable to WSIB stakeholders**	**Non-controlling interests**	**Total**
Balance at December 31, 2011		(14,807)	1,905	(12,902)
Excess of revenues over expenses		909	198	1,107
Remeasurements of employee defined benefit plans	18	(163)	-	(163)
Balance at December 31, 2012		(14,061)	2,103	(11,958)
Excess of revenues over expenses		2,583	264	2,847
Remeasurements of employee defined benefit plans	18	840	-	840
Change in ownership share in investments	25	-	27	27
Balance at December 31, 2013		**(10,638)**	**2,394**	**(8,244)**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Consolidated Statements of Cash Flows
For the years ended December 31
(millions of Canadian dollars)

	2013	**2012**
Operating activities:		
Total comprehensive income	3,687	944
Adjustments:		
Amortization of net premium on investments	3	11
Depreciation and amortization of property, equipment and intangible assets	27	48
Changes in fair value of investments	(1,713)	(1,091)
Changes in fair value of investment properties	(24)	(24)
Dividend income from equity securities	(255)	(244)
Impairment of intangible assets	-	5
Income from associates and joint ventures	(45)	(58)
Interest income	(231)	(221)
Interest expense	14	13
	1,463	(617)
Changes in non-cash balances related to operations:		
Receivables, excluding those related to investing activities	7	37
Payables and accruals, excluding those related to investing activities	30	(39)
Loss of Retirement Income Fund liability	161	123
Employee benefit plans liability	(750)	272
Benefit liabilities	(90)	660
	(642)	1,053
Net cash provided by operating activities	**821**	**436**
Investing activities:		
Dividends received from equity securities, associates and joint ventures	270	256
Interest received	230	229
Additions of property, equipment and intangible assets	(22)	(7)
Purchase of investments	(26,149)	(24,998)
Sale and maturities of investments	25,095	24,519
Additions of investment properties	(68)	(36)
Acquisition of associates and joint ventures	(33)	(35)
Disposition of associates and joint ventures	12	62
Business acquisitions	(200)	(62)
Net cash required by investing activities	**(865)**	**(72)**
Financing activities:		
Disposition of non-controlling interests	117	89
Distributions paid by subsidiaries to non-controlling interests	(112)	(93)
Net (repayment) issue of long-term debt	(4)	-
Interest paid on long-term debt	(14)	(12)
Net cash required by financing activities	**(13)**	**(16)**
Increase (decrease) in cash and cash equivalents	(57)	348
Cash and cash equivalents, beginning of year	1,331	983
Cash and cash equivalents, end of year	**1,274**	**1,331**

The accompanying notes form an integral part of these consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Consolidated Financial Statements
December 31, 2013

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1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario M5V 3J1.

2. Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements as at and for the year ended December 31, 2013 were authorized for issuance by the WSIB's Board of Directors on April 24, 2014.

3. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

a) financial instruments classified as at fair value through profit or loss, which are measured at fair value;

b) investment properties, which are measured at fair value; and

c) liabilities for employee defined benefit plans, which are measured as the present value of the defined benefit obligations less the fair value of plan assets.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest (note 25).

b) Non-controlling interests

Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than a 100% interest. Total comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

c) Investments in associates and joint ventures

Associates are those entities over which the WSIB has significant influence over the financial and operating policies but not control or joint control of the entity. Generally, the WSIB is considered to have significant influence when it holds 20% or more of the voting power of an entity, but does not control or jointly control that entity. Joint ventures are entities over which the WSIB has joint control and has rights to the net assets of the arrangement. Joint control exists when the strategic, financial and operating decisions related to the entity require unanimous consent of parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' or joint ventures' total comprehensive income.

d) Joint operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement. Joint control exists when the strategic, financial and operating decisions related to the economic activity or entity require unanimous consent of parties sharing control.

The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Business combinations

At times, the WSIB's investment properties are acquired through business combinations. Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries, associates and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the WSIB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities, with the exception of those classified as at fair value through profit or loss ("FVTPL"), are measured at fair value plus transaction costs on initial recognition. Financial assets and financial liabilities at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial assets and financial liabilities are classified as follows:

Financial asset or financial liability	**Classification**
Cash and cash equivalents	FVTPL (a)
Receivables	Loans and receivables (b)
Equity securities	FVTPL (a)
Bonds	FVTPL (a)
Other invested assets	
Investment funds	FVTPL (a)
Real estate debentures	FVTPL (a)
Derivative assets	FVTPL (a)
Annuities	FVTPL (a)
Payables and accruals	Other financial liabilities (c)
Derivative liabilities	FVTPL (a)
Long-term debt	Other financial liabilities (c)

a) Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income.

Financial assets and financial liabilities that are classified as FVTPL are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation, or both. Investment properties acquired through a business combination are recognized at fair value and the related transaction costs are expensed as incurred. Investment properties acquired through an asset purchase are recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The future cash flows of each property are based on estimates of future cash flows from current and future leases.

Valuations of significant investment properties are performed by third-party appraisers, on an annual basis at a minimum, at varying dates throughout the year. On a quarterly basis, the fair value of investment properties is updated based on valuation models incorporating available market evidence.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land	Not depreciated
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years

Intangible assets

Intangible assets, which include internally developed and acquired software, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years.

Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. The criteria to capitalize development costs include the WSIB's intention and ability to complete the development of the software from which it is probable the WSIB will generate future economic benefits.

Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee.

a) Leases where the WSIB is the lessee

Assets held under finance leases are recognized as assets and included in property and equipment. At the inception of the lease, the asset is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset. A corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

Total payments under operating leases are recognized as an expense in administration and other expenses on a straight-line basis over the term of the lease. As an exception, operating leases for investment properties are accounted for as a finance lease. Investment properties held under operating leases are recognized as an asset and measured at fair value.

b) Leases where the WSIB is the lessor

All leases under which the WSIB is the lessor are leases of its investment properties and have been determined to be operating leases. Rental revenue from operating leases is recognized in investment income on a straight-line basis over the terms of the leases.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is an indication those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in administration and other expenses. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets with independent cash inflows.

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employers are required by legislation to pay premiums to the WSIB, which are recognized over the period that coverage is provided.

b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenues or expenses.

Investment income

Investment income is comprised of the following:

a) Realized and unrealized gains and losses on financial instruments

Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income in the period they arise.

b) Interest and dividend income

Interest income is determined using the effective interest method and is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

c) Income from associates and joint ventures

The WSIB's proportionate share of its associates' and joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the associate or joint venture.

d) Income from investment properties

Investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise. Rental income and service charges from investment properties are also included in investment income and recognized in the period to which they relate.

Mandatory employer incentive programs

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. Certain of these programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. An estimate of the surcharges or refunds is recognized in the period to which they relate.

Legislated obligations and funding commitments

a) Legislated obligations

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act* (the "OHSA"). The WSIB is also required to fund costs associated with the Ministry of Labour's (the "MoL") prevention activities, the Workplace Safety and Insurance Appeals Tribunal, and the offices of each of the Worker and Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

b) Funding commitments

The WSIB is committed to provide funding for the Institute for Work & Health, Safe Workplace Associations, clinics, and training centres. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

c) Voluntary employer incentive programs

The WSIB is committed to provide financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB makes contributions to the Loss of Retirement Income Fund for injured workers who have received certain benefits for twelve consecutive months. The WSIB's contributions, and any voluntary contributions from injured workers, are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation to injured workers is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries, including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future benefit payments are recognized in benefit costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Employee future benefits

The WSIB maintains two employee defined benefit pension plans, and other defined benefit plans that provide benefits such as post-employment dental, extended health and life insurance benefits.

The obligations for these plans are measured as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and includes management's estimate of expected plan investment performance, compensation level increases and retirement ages of workers.

The changes in defined benefit obligations and plan assets are recognized when they occur as follows:

a) Service costs and the net interest cost are recognized in administration and other expenses; and

b) Remeasurements, which include actuarial gains and losses, are recognized in other comprehensive income. Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

Termination benefits

Termination benefits refer to benefits payable to employees as a result of voluntary or involuntary termination of employment. The cost of termination benefits is recognized in administration and other expenses when the offer of the benefits can no longer be withdrawn.

4. Changes in Accounting Policies

The WSIB has applied the following new or amended accounting standards, effective January 1, 2013. The resulting changes in accounting policies have been made in accordance with the applicable transitional provisions.

IAS 19 *Employee Benefits* ("IAS 19")

The amendments to IAS 19 revise certain accounting requirements related to defined benefit plans.

The amended standard eliminates the corridor method as an alternative approach to recognizing actuarial gains and losses. Under the amendments, the effect of all actuarial gains and losses are immediately recognized in other comprehensive income. Previously, the WSIB recognized actuarial gains and losses using the corridor method; net actuarial gains and losses over a certain threshold were deferred and recognized in expenses on a straight-line basis over the average remaining service period of active plan members.

The amendments also replace the concept of return on plan assets and interest cost with a net interest cost that is calculated by multiplying the net liability by the discount rate used to measure the net defined benefit obligation.

Changes in the defined benefit obligations and in the fair value of plan assets are segmented into three components: service costs; net interest on the net defined benefit liabilities; and remeasurements of the net defined benefit liabilities.

The amended standard was applied retrospectively and had the following effect on the consolidated financial statements:

	December 31 2013	December 31 2012	January 1 2012
Unfunded liability attributable to WSIB stakeholders prior to change in accounting policy	10,699	13,299	14,222
(Decrease) increase in employee benefit plans liability	(61)	762	585
Unfunded liability attributable to WSIB stakeholders after change in accounting policy	**10,638**	**14,061**	**14,807**

	2013	2012
Excess of revenues over expenses prior to change in accounting policy	2,864	1,121
Increase in employee benefit expense	(17)	(14)
Excess of revenues over expenses after change in accounting policy	**2,847**	**1,107**

	2013	2012
Total comprehensive income prior to change in accounting policy	2,864	1,121
Increase in employee benefit expense	(17)	(14)
Remeasurements of defined benefit plans	840	(163)
Total comprehensive income after change in accounting policy	**3,687**	**944**

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 is a new standard, replacing the previous guidance for assessing when the WSIB controls, and therefore is required to consolidate, an investee.

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. There have not been significant changes to the accounting requirements applied when an investee is consolidated.

The WSIB has assessed its investees under the requirements of IFRS 10 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11")

IFRS 11 is a new standard, replacing the previous guidance related to joint arrangements.

The new standard requires interests in joint arrangements to be classified as a joint venture or joint operation. A joint arrangement is an arrangement in which two or more parties have joint control. Joint ventures are accounted for using the equity method of accounting whereas a party with joint control of a joint operation recognizes its share of the assets, liabilities, revenues and expenses of the joint operation.

The WSIB has assessed its joint arrangements under the requirements of IFRS 11 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements.

IFRS 12 *Disclosures of Interests in Other Entities* ("IFRS 12")

IFRS 12 is a new standard establishing disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 carries forward existing disclosures and also introduces additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard also requires enhanced disclosures of how control was determined and any restrictions that might exist on consolidated assets and liabilities within the consolidated financial statements.

The WSIB has amended its consolidated financial statement note disclosures to reflect the requirements of IFRS 12.

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 is a new standard that sets out a single IFRS framework for measuring fair value that is applied in most circumstances where IFRS requires or permits measurements or disclosures of fair value.

IFRS 13 clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

The WSIB has assessed its fair value measurements under the requirements of IFRS 13 and has determined that its application does not result in any significant change to the WSIB's consolidated financial statements. The WSIB has amended its consolidated financial statement note disclosures to reflect the new disclosure requirements of IFRS 13.

5. Critical Accounting Estimates and Judgments

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Benefit liabilities (note 19)

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Changes in these estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Employee benefit plans (note 18)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Fair value measurement of financial instruments (note 21)

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

Fair value measurement of investment properties (note 12)

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third-party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the property.

6. Future Changes in Accounting Standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 and November 2013 as part of the IASB's ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The effective date for IFRS 9 has not yet been determined, but is not expected to be effective for the WSIB any earlier than January 1, 2016.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carries forward the existing requirements in IAS 39. IFRS 9 was further amended on November 15, 2013 to introduce new guidance related to hedge accounting.

The IASB has proposed further amendments including an additional financial asset category for certain investments in debt securities, as well as amendments that address impairment.

IAS 32 *Financial Instruments Presentation* ("IAS 32")

Amendments to IAS 32 were issued in December 2011. The amended IAS 32 will be effective for the WSIB beginning January 1, 2014.

The amendments to IAS 32 clarify the existing requirements for offsetting financial instruments.

IAS 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in November 2013, which will be effective for the WSIB beginning January 1, 2015.

The amendments to IAS 19 clarify the accounting for contributions by employees or third parties to defined benefit plans.

Exposure drafts

a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

7. Revenues

	2013	**2012**
Premiums		
Schedule 1 employer premiums		
Gross Schedule 1 premiums	4,347	4,024
Interest and penalties	48	38
Other income	1	8
	4,396	4,070
Schedule 2 employer administration fees	71	66
	4,467	4,136
Net mandatory employer incentive programs	(80)	(30)
	4,387	4,106
Net investment income (note 10)	2,042	1,459
	6,429	**5,565**

Premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Premiums are primarily derived from total insurable earnings of Schedule 1 employers and are recognized over the period that coverage is provided.

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. The WSIB administers the payment of the benefits for workers of Schedule 2 employers. The Schedule 2 employer administration fees represent revenues received for the administration of Schedule 2 benefit payments.

Net mandatory employer incentive programs

Net mandatory employer incentive programs represent the net surcharges and refunds related to Schedule 1 employer premiums based on an employer's claims experience.

Net investment income

Details of net investment income are provided in note 10.

8. Administration and Other Expenses

Administration and other expenses for the year ended December 31 are comprised of the following:

	2013	**2012**
Salaries and short-term benefits	373	367
Long-term benefit plans	189	181
Depreciation and amortization	22	43
Bad debts	39	25
Communications	10	10
Equipment and maintenance	48	36
Facilities	43	44
Impairment of intangible assets	-	5
New systems development and integration	21	22
Termination benefits	18	29
Other	43	29
	806	791
Claim administration costs allocated to benefit costs (note 19)	(445)	(458)
	361	**333**

Claim administration costs allocated to benefit costs represent management's estimate of the administration and other expenses directly related to the administration of benefit claims. For the purposes of this allocation, the WSIB has identified the roles and activities that are directly involved in the claim adjudication and payment processes. The direct costs of these roles and activities, including associated overhead costs, are allocated to benefit costs. Note 19 provides further details on the benefit liabilities and benefit costs.

9. Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents are comprised of the following:

	2013	**2012**
Cash	747	631
Short-term money market securities	527	700
	1,274	**1,331**

For management purposes, cash and cash equivalents are held as follows:

	2013	**2012**
Held for operating purposes	364	439
Held for investment purposes	740	737
Held in Loss of Retirement Income Fund (note 17)	170	155
	1,274	**1,331**

10. Invested Assets and Net Investment Income

Invested Assets

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WSIB's investment portfolio. The SIPP is reviewed by the Board of Directors on no less than an annual basis and is amended as required.

The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes. The invested assets are currently diversified among five primary asset strategies as follows:

Fixed income	Bonds, debentures and other fixed income investments.
Public equities	Investment in the equity, or securities convertible into equity, of public corporations.
Multi-asset	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures and properties in Canada diversified across office, retail, industrial and mixed-use assets.
Infrastructure	Investments in transportation, utilities, energy and health care facilities.

The WSIB's invested assets are held directly or held indirectly through investments in subsidiaries, associates, joint ventures or joint operations.

The following provides a summary of the nature of the invested assets by asset strategy:

	Fixed income	Public equities	Multi-asset	Real estate	Infra-structure	Other	2013	2012
Equity securities	**-**	**7,866**	**562**	**-**	**139**	**-**	**8,567**	**7,707**
Bonds	**5,004**	**-**	**444**	**-**	**-**	**-**	**5,448**	**5,058**
Other invested assets								
Investment funds	-	-	3,673	-	331	-	4,004	2,550
Real estate debentures	-	-	-	379	-	-	379	356
Investment properties (note 12)	-	-	-	962	-	-	962	643
Investments in associates and joint ventures (note 11)	-	-	-	379	57	-	436	386
Derivative assets	-	3	34	-	-	-	37	38
Annuities	-	-	-	-	-	75	75	71
	-	**3**	**3,707**	**1,720**	**388**	**75**	**5,893**	**4,044**

Investments under securities lending program

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of the counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statement of financial position.

As at December 31, 2013, the fair value of investments under the securities lending program was $1,247 (2012 – $592). As at December 31, 2013, the fair value of securities maintained as collateral was approximately $1,338 (2012 – $627).

Derivative assets and derivative liabilities

Derivative assets and derivative liabilities include foreign exchange forward contracts primarily utilized to hedge investments denominated in a foreign currency, and to a lesser extent, held for active trading. Equity index, fixed income and commodity futures are held to provide international and asset class diversification. These futures are collateralized with cash and treasury bills to replicate the return of the respective equity, fixed income or commodity investments

The foreign exchange and swap derivative assets and derivative liabilities are subject to netting arrangements and in practice are settled on a net basis, but do not meet the criteria to present on a net basis. As such, the derivative assets and derivative liabilities are presented separately on the consolidated statement of financial position.

The following provides further information regarding derivative assets and derivative liabilities at December 31:

	2013			**2012**		
		Fair value			**Fair value**	
	Notional amount	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Forward exchange contracts	9,768	27	52	8,248	31	79
Fixed income futures	2,640	1	20	2,528	4	6
Commodity futures	360	3	6	126	1	3
Equity Index futures	211	6	-	128	2	-
Swaps	81	-	-	-	-	-
	13,060	**37**	**78**	**11,030**	**38**	**88**

Net investment income

Net investment income by asset strategy for the years ended December 31 is as follows:

	Fixed income	**Public equities**	**Multi-asset**	**Real estate**	**Infra-structure**	**Other**	**2013**	**2012**
Equity securities	-	2,109	169	-	11	1	2,290	948
Bonds	(45)	1	23	-	-	2	(19)	205
Investment funds	-	-	273	-	56	-	329	171
Real estate debentures	-	-	-	44	-	-	44	31
Investment properties	-	-	-	101	-	-	101	82
Income from associates and joint ventures (note 11)	-	-	-	42	3	-	45	58
Derivatives	-	(153)	(285)	-	(24)	-	(462)	181
Annuities	-	-	-	-	-	11	11	4
Short-term securities	-	-	-	-	-	4	4	5
Investment expenses	(1)	(53)	(32)	(42)	(14)	-	(142)	(111)
Less: Loss (Income) attributable to Loss of Retirement Income Fund (note 17)	3	(126)	(11)	(9)	(3)	(13)	(159)	(115)
	(43)	**1,778**	**137**	**136**	**29**	**5**	**2,042**	**1,459**

Net investment income for the years ended December 31 is comprised of the following:

	2013	**2012**
Realized and unrealized gains on financial instruments	5,116	3,693
Realized and unrealized losses on financial instruments	(3,402)	(2,602)
Interest and dividend income	483	454
Income from associates and joint ventures (note 11)	45	58
Income from investment properties	101	82
Less: Income attributable to Loss of Retirement Income Fund (note 17)	(159)	(115)
Investment income	2,184	1,570
Investment expenses	(142)	(111)
	2,042	**1,459**

11. Investments in Associates and Joint Ventures

Investments in associates and joint ventures are comprised of the following:

	2013	**2012**
Investments in associates	13	17
Investments in joint ventures	423	369
	436	**386**

Income from associates and joint ventures for the years ended December 31 is comprised of the following:

	2013	2012
Net loss from associates	(1)	(1)
Net income from joint ventures	46	59
	45	**58**

Investments in associates

Associates are those entities over which the WSIB has significant influence over the financial and operating policies but not control or joint control of the entity. Generally, the WSIB is considered to have significant influence when it holds 20% or more of the voting power of an entity, but does not control or jointly control that entity. Investments in associates are accounted for using the equity method.

	2013	2012
Balance, beginning of year	17	9
Additional investment	1	9
Return of capital	(3)	-
WSIB's share of net loss from associates	(1)	(1)
Dividends received and receivable	(1)	-
Balance, end of year	**13**	**17**

As at December 31, 2013, the WSIB had $26 (2012 – $28) of outstanding commitments for additional investments in existing associates.

The following provides a summary of the financial position information of the WSIB's associates:

	2013	2012
Total assets	87	103
Total liabilities	(8)	(19)
Net assets	**79**	**84**
WSIB's share of net assets	13	**17**

The following provides a summary of the net loss of the WSIB's associates:

	2013	2012
Revenues	7	7
Expenses	(6)	(8)
Gain on sale of investment properties	-	1
Loss on change in fair value of investment properties	(2)	(2)
Net loss	**(1)**	**(2)**
WSIB's share of net loss	**(1)**	**(1)**

Investments in joint ventures

Joint ventures are entities over whose activities the WSIB has joint control. Joint control exists when the strategic, financial and operating decisions related to the entity require unanimous consent of parties sharing control. Investments in joint ventures are accounted for using the equity method.

	2013	2012
Balance, beginning of year	369	366
Additional investment	30	26
Disposition	(5)	(63)
Classification change	-	(9)
WSIB's share of net income from joint ventures	46	59
Dividends received and receivable	(17)	(10)
Balance, end of year	**423**	**369**

The WSIB's ownership in the joint ventures, which hold investment properties, ranges from 38% - 77%. While the WSIB's ownership in certain joint ventures is greater or less than 50%, there are contractual agreements in place requiring unanimous consent for significant strategic, financial and operating decisions.

As of December 31, 2013, the WSIB had commitments to make additional capital contributions of $172 (2012 – $194) to joint ventures. As at December 31, 2013, the joint ventures had total commitments to fund loans for qualified projects over the next five years in the amount of $99 (2012 – $131) from the capital contributions from their investors. The WSIB's ownership share represents $76 (2012 – $101) of these commitments.

The following provides a summary of the financial position information of the WSIB's joint ventures:

	2013	2012
Total assets	1,251	1,159
Total liabilities	(324)	(334)
Net assets	**927**	**825**
WSIB's share of net assets	**423**	**369**

The following provides a summary of the net income of the WSIB's joint ventures:

	2013	2012
Revenues	105	101
Expenses	(64)	(80)
Gains from increases in fair value	62	114
Net income	**103**	**135**
WSIB's share of net income	**46**	**59**

12. Investment Properties

The reconciliation of carrying amounts for investment properties is set forth below:

	2013	2012
Balance, beginning of year	643	488
Asset acquisitions	51	11
Business combinations	224	100
Capital expenditures	17	18
Gains from increases in fair value	24	24
Other	3	2
Balance, end of year	**962**	**643**

Rental income and operating expenses

Rental income and service charges from investment properties during the year were $76 (2012 – $56) and are included in investment income (note 10). Operating expenses from investment properties during the year were $40 (2012 – $33) and are included in investment expenses (note 10).

Asset acquisitions

During 2013, the WSIB acquired an 80% interest in two investment properties for a total cost of $39. During the year, the WSIB also acquired an additional 25% interest in a property, which the WSIB had already owned 75%, for a total cost of $2.

In 2012, the WSIB acquired a 75% undivided co-ownership interest in an investment property through an asset acquisition for total cash consideration of $11.

Business combinations

During 2013, the WSIB acquired three income-producing investment properties through the acquisition of 100% of two businesses and 87% of another for total purchase consideration of $200.

During 2012, the WSIB acquired three income-producing investment properties through the acquisition of 100% of two businesses and 80% of another for total purchase consideration of $55. The WSIB also acquired control of an investment property by increasing its interest to 100% for consideration of $8.

Total assets acquired and liabilities assumed were as follows:

	2013	2012
Receivables and other assets	-	1
Investment properties	224	100
Payables	(2)	(1)
Mortgage payable	-	(23)
Total fair value of net identifiable assets	**222**	**77**
Non-controlling interests	(22)	(4)
Fair value of existing interest	-	(9)
Purchase discount	-	(1)
Total consideration transferred	**200**	**63**

Fair value measurements

Fair values of investment properties are estimated based on valuations performed by qualified appraisers. The fair values of investment properties are updated quarterly based primarily on the discounted expected future cash flows of the properties. At least one valuation per year for each property is based on an independent appraisal.

Further details on the fair value measurement of investment properties are included in Note 21.

Leases of investment properties

The WSIB is the lessor for a number of operating leases of its investment properties. These leases typically have a term of 1 to 15 years, with an option to renew. All operating lease contracts contain market review clauses in the event the lessee exercises its option to renew. The leases do not provide the lessee with an option to purchase the property at the end of the lease term.

The future minimum lease payments to be received under non-cancellable leases are as follows:

	Minimum lease payments
Not later than one year	44
Later than one year and not later than five years	156
Later than five years	113
	313

13. Joint Operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement. Joint control exists when the strategic, financial and operating decisions related to the economic activity or entity require the unanimous consent of parties sharing control.

The WSIB's consolidated financial statements include its share of the assets, liabilities, revenues and expenses related to the joint operations.

The WSIB's ownership interests in joint operations at December 31, 2013 are as follows:

	Ownership
Simcoe Place (a)	75%
Mississauga Property (b)	50%
Calgary Property (c)	50%
Montreal Property (d)	75%

a) The WSIB has a 75% undivided co-ownership interest in an office tower situated at 200 Front Street West, Toronto, Ontario ("Simcoe Place"). The WSIB occupies approximately 71% of the premises and recognizes its share of the property within property and equipment and its share of operating expenses in administration and other expenses. As at December 31, 2013, the WSIB had no capital commitments with respect to Simcoe Place. While the WSIB has a 75% interest, unanimous consent of both parties with ownership interests is required for significant financial and operating decisions.

b) The WSIB has a 50% undivided co-ownership interest in an office and retail complex of four office buildings and adjoining development lands located in Mississauga, Ontario (the "Mississauga Property"). As at December 31, 2013, the WSIB had no capital commitments with respect to the Mississauga Property.

c) The WSIB has a 50% undivided co-ownership interest in a retail development located in Calgary (the "Calgary Property"), held through a limited partnership. As at December 31, 2013, the WSIB had $13 capital commitments with respect to the Calgary Property.

d) The WSIB has a 75% undivided co-ownership interest in an industrial development located in Montreal (the "Montreal Property"), which is classified as an investment property. As at December 31, 2013, the WSIB had no capital commitments with respect to this property. While the WSIB has a 75% interest, unanimous consent of both parties with ownership interests is required for significant financial and operating decisions.

The following amounts related to the joint operations are included in the WSIB's consolidated financial statements:

	Simcoe Place	**Mississauga Property**	**Calgary Property**	**Montreal Property**	**2013**	**2012**
Other assets	8	8	-	1	17	16
Property and equipment	123	-	-	-	123	127
Investment properties	-	78	33	9	120	81
Payables	(4)	(2)	-	-	(6)	(7)
Long-term debt	(80)	-	(12)	-	(92)	(82)
Net assets	**47**	**84**	**21**	**10**	**162**	**135**
Investment income	-	15	-	-	15	14
Investment expenses	-	(6)	-	-	(6)	(7)
Administration and other expenses	(28)	-	-	-	(28)	(28)
Total comprehensive income (loss)	**(28)**	**9**	-	-	**(19)**	**(21)**

14. Property and Equipment

	Land	Buildings	Leasehold improvements	Office and computer equipment	Total
Cost					
Balance at December 31, 2011	40	102	67	29	238
Additions	-	-	-	2	2
Balance at December 31, 2012	40	102	67	31	240
Additions	-	-	1	1	2
Disposals	-	-	-	(2)	(2)
Balance at December 31, 2013	**40**	**102**	**68**	**30**	**240**
Accumulated depreciation					
Balance at December 31, 2011	-	11	55	13	79
Depreciation	-	4	4	6	14
Balance at December 31, 2012	-	15	59	19	93
Depreciation	-	4	4	7	15
Disposals	-	-	-	(1)	(1)
Balance at December 31, 2013	**-**	**19**	**63**	**25**	**107**
Carrying amounts					
At December 31, 2013	40	83	5	5	133
At December 31, 2012	40	87	8	12	147

Depreciation of property and equipment is included in administration and other expenses on the consolidated statement of comprehensive income.

The WSIB has a 75% undivided co-ownership interest in Simcoe Place, and occupies approximately 71% of the property. The WSIB's share of the land, building and leasehold improvements is included in property and equipment.

Property and equipment includes the following carrying values for assets under finance leases:

	2013	2012
Land	40	40
Office and computer equipment	-	3
	40	**43**

15. Intangible Assets

	Internally developed software	Acquired software	Total
Cost			
Balance at December 31, 2011	75	5	80
Additions	3	1	4
Impairment	(5)	-	(5)
Balance at December 31, 2012	73	6	79
Additions	20	3	23
Disposals	(8)	(1)	(9)
Balance at December 31, 2013	**85**	**8**	**93**
Accumulated amortization			
Balance at December 31, 2011	26	4	30
Amortization	31	1	32
Balance at December 31, 2012	57	5	62
Amortization	11	1	12
Disposals	(8)	-	(8)
Balance at December 31, 2013	**60**	**6**	**66**
Carrying amounts			
At December 31, 2013	25	2	27
At December 31, 2012	16	1	17

The carrying amount for internally developed software at December 31, 2013 includes $20 of costs for software that is not yet available for use and therefore is not yet subject to amortization (2012 – $4).

Amortization and impairment of intangible assets is included in administration and other expenses on the consolidated statement of comprehensive income.

Impairment

During 2012, management determined that certain elements of internally developed software may not be implemented as originally intended due to business transformation initiatives. An impairment charge of $5 was recognized in the consolidated statement of comprehensive income during 2012, and the carrying amount of the impaired elements of internally developed software was reduced to nil at December 31, 2012.

16. Long-term Debt

Long-term debt is comprised of the following:

	2013	2012
Mortgages payable	120	111
Bank loan	-	10
Obligations under finance leases	48	48
	168	169
Current portion	(32)	(7)
	136	**162**

Mortgages payable

The WSIB has a mortgage loan agreement related to Simcoe Place (note 13) that is secured by the building and matures in 2015. The interest rate is fixed at 10.25% per annum compounded semi-annually. The balance of this mortgage as at December 31, 2013 was $59 (2012 – $61). For the year ended December 31, 2013, interest of $6 was included in administration and other expenses (2012 – $6).

Mortgages related to investment properties are held with a total principal balance of $61 (2012 – $50). The mortgages have annual fixed interest rates of 4.1% - 6.1%, and mature between 2014 and 2016. For the year ended December 31, 2013, interest of $2 was included in investment expenses (2012 – $2).

At December 31, 2013, future principal payments on mortgages payable were as follows:

	Principal payments
Not later than one year	31
Later than one year and not later than five years	89
Later than five years	-
	120

Bank loan

The bank loan is comprised of the following:

	2013	2012
Bank loan	-	10

The WSIB entered into a bank loan on January 1, 2012 related to an investment property. The loan is secured by the investment property, bearing interest on a floating rate basis at the lender's inter-bank rate plus 3% per annum. The loan was fully repaid on December 17, 2013.

Obligations under finance leases

The WSIB has a finance lease related to the land at Simcoe Place (note 13) with minimum annual lease payments of $4 (2012 – $4). The lease expires in 2027, at which point the WSIB has an option to purchase a 75% interest in the land for $2. Management considers this option to be advantageous and expects the option will be exercised. The interest rate on this finance lease is 19.59%.

The WSIB has three operating leases for investment properties. The WSIB has elected to measure these investment properties at fair value and to account for the related operating leases as finance leases. These leases have total annual minimum lease payments of $2 and interest rates ranging from 5.6% - 7.8%. Two of the leases have remaining lease terms of 38 years; the other has a remaining lease term of 74 years.

The WSIB has two finance leases for computer equipment with remaining lease terms of one year and interest rates ranging from 3.5% - 4.2%. The leases have total annual minimum lease payments of $0.2 for the next 12 months.

Future minimum lease payments under finance leases are as follows:

	Future minimum lease payments	Interest	Present value of minimum lease payments
Not later than one year	6	(5)	1
Later than one year and not later than five years	24	(22)	2
Later than five years	120	(75)	45
	150	**(102)**	**48**

17. Loss of Retirement Income Fund Liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to eligible workers.

	2013	2012
Balance, beginning of year	1,377	1,254
Contributions from the WSIB	62	67
Optional contributions from injured workers	8	9
Contributions from Schedule 2 employers	4	4
Investment income (note 10)	159	115
Benefits paid in cash	(72)	(72)
Balance, end of year	**1,538**	**1,377**

The WSIB contributes five percent of the loss of earnings benefits once a worker of a Schedule 1 employer has been receiving loss of earnings benefits for twelve continuous months. The WSIB's contributions are recognized in the consolidated statement of comprehensive income as the Loss of Retirement Income Fund contributions expense.

Workers eligible for loss of retirement income benefits can choose to contribute a further five percent from their loss of earnings benefits. Schedule 2 employers are required to contribute five percent of the loss of earnings benefits for their workers once loss of earnings benefits are received for twelve continuous months.

For claims incurred prior to January 1, 1998, the contribution from the WSIB and Schedule 2 employers is 10% of every future economic loss payment made to injured workers.

Total contributions are segregated within the WSIB's investment portfolio as Loss of Retirement Income Fund. The WSIB's obligation pursuant to the WSIA is to provide retirement benefits equal to the WSIB's contributions, contributions from injured workers and contributions from Schedule 2 employers, plus the investment income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured as the fair value of the assets in the Loss of Retirement Income Fund.

The assets of the Loss of Retirement Income Fund are included in the consolidated statement of financial position. The following provides a summary of the assets by category as defined by the WSIB's SIPP:

	2013		2012	
Public equities	520	34%	498	36%
Fixed income	306	20%	306	22%
Real estate	105	7%	84	6%
Infrastructure	35	2%	18	1%
Multi-asset	339	22%	256	19%
Other	63	4%	60	5%
Included in total invested assets (note 10)	1,368	89%	1,222	89%
Cash and cash equivalents (note 9)	170	11%	155	11%
	1,538	**100%**	**1,377**	**100%**

18. Employee Benefit Plans

The WSIB maintains two employee defined benefit pension plans, and other defined benefit plans that provide benefits such as post-employment dental, extended health and life insurance benefits. The cost of employee benefit plans is recognized as the employees provide service to the WSIB, and the liabilities for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The WSIB Employees' Pension Plan provides for partially indexed pensions based on years of service and the best five consecutive years' average earnings in the last 10 years of employment. The WSIB Employees' Supplementary Pension Plan ensures that employees whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Federal *Income Tax Act* (ITA) will receive pension benefits based on their total earnings. The other long-term employee benefit plan provides certain post-employment medical, dental and insurance benefits.

Regulatory framework

The WSIB Employees' Pension Plan is a registered pension plan under the Ontario *Pension Benefits Act* (PBA), which requires certain minimum benefit standards and funding levels. Minimum funding requirements under the PBA are determined based on actuarial valuations on a going concern basis that are required at a minimum of every three years. Deficits under the going concern basis may be funded over up to 15 years, beginning one year from the valuation date. In addition, solvency valuations must be performed which simulate a plan wind-up. Deficiencies established on a solvency basis may be funded over up to five years, beginning one year from the valuation date.

The WSIB Employees' Supplementary Pension Plan is funded to the extent of employee contributions in excess of ITA limits, which are matched by the WSIB, and special contributions from the WSIB as may be necessary to meet expected benefit outflows. The other employee benefit plans are not funded in advance.

Funding and arrangements

With respect to the WSIB Employees' Pension Plan, the WSIB's practice is to contribute the minimum required under the PBA, but additional contributions may be made for tactical purposes, such as to meet a particular funding threshold. The WSIB Employees' Pension Plan is open to new entrants, and employees pay contributions based on a fixed formula (as percentages of payroll), with the WSIB responsible for the balance of the cost of the WSIB Employees' Pension Plan.

The WSIB applied for temporary solvency funding relief based on the December 31, 2012 solvency valuation of the WSIB Employees' Pension Plan, and the application was approved in June 2013. The temporary solvency relief provisions allow a longer period over which to fund the solvency deficiencies.

Governance of defined benefit plans

The Board of Directors of the WSIB oversees the administration of the employee benefit plans in accordance with applicable legislation and approves the governance structure, including the mandates of those to whom administrative duties and responsibilities have been delegated. The Board of Directors approves actuarial valuation reports and establishes employer contributions, approves audited plan financial statements, appoints and terminates key service providers and monitors plan funded status and regulatory, legislative and governance compliance.

The Board of Directors receives assistance in the fulfilment of its responsibilities related to the employee benefit plans through various committees, including the Audit and Finance Committee, the Human Resources and Compensation Committee and the Investment Committee.

Risks

Given that employee contributions to the employee benefit plans (if any) are fixed, the WSIB generally bears the risks associated with the defined benefit plans. The most significant sources of risk for the WSIB include:

a) A decline in discount rates that increases the measurement of the employee benefit plans liability;

b) For the WSIB Employees' Pension Plan which is funded, investment returns which are lower than expected or which do not keep pace with changes in the defined benefit obligation due to interest rate changes;

c) Lower than expected rates of mortality; and

d) For retiree health and dental benefits, health care cost inflation being higher than expected.

In general, the WSIB manages the risks through plan design reviews and, in relation to investment risks, through risk control mechanisms in the WSIB's SIPP.

Defined benefit plans expense

The cost of the employee defined benefit plans recognized in administration and other expenses is as follows:

	2013	**2012**
Service cost	121	119
Net interest on the employee benefit plans liability	68	62
	189	**181**

Remeasurements of the employee benefit plans recognized in other comprehensive income are as follows:

	2013	2012
Actuarial gains and losses arising from changes in demographic assumptions	-	(55)
Actuarial gains and losses arising from changes in financial assumptions	678	(203)
Actuarial gains and losses arising from demographic and other experience	(14)	(19)
Return in excess of interest income on plan assets	176	114
	840	**(163)**

Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	December 31 2013	December 31 2012	January 1 2012
Present value of unfunded obligations	598	655	594
Present value of wholly or partly funded obligations	2,665	3,089	2,686
Total present value of obligations	3,263	3,744	3,280
Fair value of plan assets	(2,343)	(2,074)	(1,883)
Deficit	**920**	**1,670**	**1,397**

The movement in the total present value of defined benefit obligations is as follows:

	2013	2012
Balance, beginning of year	3,744	3,280
Current service cost	112	95
Past service cost	-	25
Contributions by employees	26	28
Interest expense on the defined benefit obligations	149	143
Actuarial gains and losses arising from demographic and other experience	27	18
Actuarial gains and losses arising from changes in demographic assumptions	-	55
Actuarial gains and losses arising from changes in financial assumptions	(683)	203
Benefits paid	(112)	(103)
Balance, end of year	**3,263**	**3,744**

Benefits to be paid during 2014 are projected to be $112, and the WSIB's contributions to the plans are projected to be $112.

The WSIB Employees' Pension Plan and Retiree Health, Dental and Life Insurance Benefit Plan together comprise approximately 95% of the defined benefit obligations as at December 31, 2013. The weighted average duration of the defined benefit obligations for these two plans, determined on the Modified basis, is as follows:

	Pension **2013**	**Retiree welfare** **2013**
Weighted average duration	**15.5**	**19.6**

Fair value of plan assets

The movement in the total fair value of plan assets is as follows:

	2013	**2012**
Balance, beginning of year	2,074	1,883
Return in excess of interest income on plan assets	176	114
Interest income on plan assets	81	80
Contributions by the WSIB	98	72
Contributions by employees	26	28
Benefits paid	(112)	(103)
Balance, end of year	**2,343**	**2,074**

Plan assets are comprised of the following:

	2013		**2012**	
Plan assets by major category				
Public equities	902	39%	871	42%
Fixed income	560	24%	547	26%
Real estate	193	8%	154	7%
Infrastructure	63	3%	33	2%
Multi-asset and other	625	26%	469	23%
Total	**2,343**	**100%**	**2,074**	**100%**

The plan assets and the associated risk are managed in accordance with the WSIB's SIPP. The SIPP requires that the plan assets be diversified across certain asset classes and investment strategies (note 10). Measurement, assessment and management of risk is conducted using tools and analysis, including asset-liability studies, measures of standard deviation and tracking error, and sensitivity analysis. Other risks, such as operational risks, are managed through internal controls or other risk control mechanisms.

Actuarial assumptions

The significant actuarial assumptions used in the determination of the present value of the defined benefit obligations are as follows:

	2013	2012
Discount rate – plan expenses	3.9%	4.3%
Discount rate – accrued benefit obligation	4.7%	3.9%
Inflation	2.0%	2.5%
Salary increases	3.0%-4.0%	3.5%-4.5%
Health care increases (i)	7.0%	8.0%
Dental increases	4.0%	4.0%

i) The assumptions for health care increases are for the subsequent year, after which the increase assumptions decline 100 basis points per annum to 4.0% in 2017 and thereafter.

The assumptions for mortality rates are based on the UP94 table projected generationally using scale AA for pension and benefit plans as at December 31, 2013 (unchanged from December 31, 2012).

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the employee benefit plans liability. The following provides an estimate of the potential impact of a change in the more significant assumptions:

	Increase (decrease) in the defined benefit obligations
Change in assumption	**2013**
100 basis point increase in the discount rate	(470)
100 basis point decrease in the discount rate	600
100 basis point increase in salary, indexation, government benefit increases	337
100 basis point decrease in salary, indexation, government benefit increases	(284)
100 basis point increase in health care and dental costs escalation rate	82
100 basis point decrease in health care and dental costs escalation rate	(68)

The sensitivities above assume all other assumptions are held constant.

The measurement of the defined benefit obligations is also sensitive to the mortality assumptions. A recently finalized report from the Canadian Institute of Actuaries on Canadian Pensioners' Mortality confirms that the life expectancy of Canadian pensioners continues to increase and is significantly longer than commonly anticipated by pension actuaries. The current longevities underlying the measurement of the defined benefit obligations as at December 31 are as follows:

	2013
Longevity for those currently age 65	
Males	19.8 years
Females	22.2 years
Longevity at age 65 for those currently age 45	
Males	21.3 years
Females	23.0 years

If the mortality rates were to be reduced proportionately such that the average life expectancy for a 65 year-old female was increased by two years, and the mortality rate was adjusted proportionately for all other plan members, the defined benefit obligations for the WSIB Employees' Pension Plan and Retiree Health, Dental and Life Insurance Benefit Plan would increase by $135 (5.1%) and $39 (8.6%), respectively.

19. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments for reported and unreported claims incurred on or before December 31, 2013, including claims in respect of occupational diseases currently recognized by the WSIB. The estimated cost of administering those claims is also included in benefit liabilities. Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; the WSIB's payment of those claims is reimbursed by the self-insured Schedule 2 employer on an ongoing basis.

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the Canadian Institute of Actuaries.

Benefit liabilities are comprised of the following:

	2013	2012
Loss of earnings	9,314	9,366
Workers' pensions	6,318	6,405
Health care	3,721	3,811
Survivor benefits	2,579	2,426
Future economic loss	1,766	1,902
External providers	257	281
Non-economic loss	296	307
Long latency occupational diseases	1,565	1,425
Claim administration costs	1,144	1,127
	26,960	**27,050**

A summary of the changes in benefit liabilities is as follows:

	2013	2012
Benefit liabilities, beginning of year	27,050	26,390
Benefit costs	2,873	3,782
Benefit costs paid during the year	(2,963)	(3,122)
Benefit liabilities, end of year	**26,960**	**27,050**

Further details of the changes in benefit liabilities are as follows:

	Loss of earnings	Workers' pensions	Future economic loss	Health care	Non-economic loss	External providers	Survivor benefits	Claim admin.	Occupa-tional diseases	2013	2012
Benefit liabilities, beginning of year	9,366	6,405	1,902	3,811	307	281	2,426	1,127	1,425	**27,050**	26,390
Claim costs recognized during the year	845	-	-	435	49	56	104	392	(42)	**1,839**	1,889
Payments processed during the year	(945)	(633)	(271)	(455)	(48)	(52)	(178)	(428)	-	**(3,010)**	(3,163)
Interest expense on the liability	490	335	97	200	16	14	129	56	75	**1,412**	1,371
Impact of actuarial remeasurement	172	342	53	4	10	-	174	27	114	**896**	1,638
Changes in claims experience	(614)	(131)	(15)	(274)	(38)	(42)	(76)	(30)	(7)	**(1,227)**	(1,075)
Benefit liabilities, end of year	**9,314**	**6,318**	**1,766**	**3,721**	**296**	**257**	**2,579**	**1,144**	**1,565**	**26,960**	**27,050**

Benefit costs

Benefit costs are comprised of the following:

	2013	2012
Benefit payments	2,518	2,664
Claim administration costs	445	458
Change in actuarial valuation of benefit liabilities	(90)	660
	2,873	**3,782**

Benefit payments represent cash paid during the year to or on behalf of injured workers. Benefit payments are comprised of the following:

	2013	2012
Loss of earnings	908	968
Workers' pensions	624	652
Health care	455	457
Survivor benefits	178	176
Future economic loss	242	259
External providers	52	65
Non-economic loss	48	60
Other	11	27
Benefit costs paid to or on behalf of injured workers	**2,518**	**2,664**
Claim administration costs	445	458
Benefit costs paid during the year	**2,963**	**3,122**

Change in actuarial valuation

The change in the actuarial valuation of benefit liabilities is comprised of the following:

	2013	2012
Changes in estimate of cost of claims	(2,398)	(2,349)
Changes in actuarial assumptions and methods	896	1,638
Accretion (i)	1,412	1,371
	(90)	**660**

i) Accretion represents the estimated interest cost of the benefits liability, considering the discount rate, benefit liabilities at the beginning of the year and payments during the year.

The changes in actuarial assumptions and methods are comprised of the following:

	2013	2012
Change in discount rate	941	150
Changes in methods and assumptions for loss of earnings benefits	-	310
Changes in mortality rates	343	-
Changes in occupational disease assumptions and methods	114	775
Changes for health care benefits	-	196
Changes for future claim administration costs	-	29
Other changes of methodology and assumptions	(502)	178
	896	**1,638**

Actuarial assumptions and methods

The actuarial present value of future benefit payments depends on actuarial assumptions, including economic assumptions, which are based on past experience modified for current trends and expected development. Actuarial assumptions are reviewed annually when the actuarial valuation is performed. Management believes the valuation methods and assumptions are, in aggregate, appropriate for the valuation of benefit liabilities.

The following table summarizes the main underlying actuarial assumptions used in estimating the categories of benefit liabilities:

Actuarial Assumption	Note	Loss of earnings	Workers' pensions	Health care	Survivor benefits	Future economic loss	External providers	Non-economic loss	Long latency occupational diseases
Discount rate	a)	√	√	√	√	√	√	√	√
Indexation	a)	√	√	-	√	√	-	√	√
Wage escalation	a)	√	√	-	√	√	√	√	√
Health care escalation	a)	-	-	√	-	-	-	-	√
Wage loss	b)	√	-	-	-	√	-	-	√
Mortality	c)	√	√	√	√	√	-	√	√
Claims incidence	d)	√	-	-	-	-	-	-	√
Termination	d)	√	-	-	-	-	-	-	√
Exposure index	d)	√	√	√	√	√	√	√	√
Expenses	f)	√	√	√	√	√	√	√	√

a) Economic assumptions

The following provides a summary of the primary economic assumptions used in the actuarial valuation of benefit liabilities:

	2013	2012	Change
Discount rate	2013-2017 - 5.0% thereafter - 5.5%	2012-2017 - 5.5% thereafter - 6.0%	(0.5)% (0.5)%
Indexation of benefits rate:			
Fully indexed to inflation	2.0%	2.5%	(0.5)%
Partially indexed	0.5%	0.5%	- %
Wage escalation rate	3.0%	3.5%	(0.5)%
Health care costs escalation rate	4.0%	4.5%	(0.5)%

For partially indexed loss of earnings and workers' pensions related to injuries since April 1, 1985, the assumption used for partially indexed benefits has been revised to better reflect the application of the current temporary indexing factor of 0.5%. This factor is scheduled to expire in 2014, at which time the valuation assumptions will be reviewed to properly take into account any changes.

b) Wage loss

Wage loss refers to the proportion of a worker's wages that are lost due to an injury. Most benefits influenced by wage loss are based on historical experience and limits in the WSIA.

c) Mortality

The assumptions for mortality rates were updated in 2013 to reflect current experience and updated expectations for future mortality improvements derived from recent recognized studies. Mortality rates are used to estimate the duration for which the WSIB will continue to be required to make payments to injured workers or survivors receiving monthly pension amounts. The mortality assumptions are determined separately for injured workers and survivors as follows:

i) the mortality assumption for injured workers is based on an actuarial study of the mortality levels by age and gender experienced by WSIB disability income recipients from 2006-2010, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB injured workers up to and including 2013;

ii) the mortality assumption for those receiving survivor benefits is based on an actuarial study of mortality levels experienced by WSIB survivors, and the 2009-2011 Province of Ontario population mortality table developed by Statistics Canada, adjusted to reflect any prevailing improvements (or otherwise) in the experience of WSIB survivors up to and including 2013; and

iii) the mortality rates for both injured workers and survivors are projected for future years using the Canada Pension Plan's mortality improvement factors. As such, future mortality rates are reduced to allow for greater future longevity expected for injured workers and survivors.

d) Claims incidence, termination and exposure index

Claims incidence refers to the number of claims incurred during the year and requires actuarial assumptions for the number of claims expected to have been incurred but not reported at December 31, 2013. Termination refers to the actuarial assumptions regarding the future duration of claims. Exposure index refers to the indicator used to assist in predicting certain future costs for different injury years and represents, on a relative basis, the level of risk insured by the WSIB.

The assumptions regarding claims incidence are determined based on the number of claims incurred in past years. The termination assumption is determined using average termination experience of the WSIB from three recent injury years and modified for the existing claims expected to be of longer duration. The exposure index has been developed using the number of claims incurred up to injury year 1998, and for subsequent years, the number of workers covered by the WSIB, adjusted by the variation in the average risk associated with these workers.

e) Occupational diseases

Occupational diseases refer to future occupational disease claims arising from exposures up to the valuation date to hazardous substances or conditions, such as asbestos and excessive noise. An in-depth study was performed in 2013 to estimate the number of latent occupational disease claims, the latency periods and their expected costs. These costs are for loss of earnings, labour market re-entry, future economic loss, health care, survivor benefits, retirement income benefits, and claim administration costs. The assumptions used for the determination of benefit liabilities were primarily based on the historical experience of the WSIB.

f) Expenses

Ratios of claim administration costs to the amounts of claims paid are used to estimate the future costs of claim administration for current claims. These ratios had been developed in analyzing claims administration and other claims related management costs for all cost centers at the WSIB by claim type, duration and amount.

Sensitivity of actuarial assumptions

Changes in the actuarial assumptions used have a significant effect on the benefit costs recognized. The following provides an estimate of the potential impact of a change in the more significant assumptions:

Change in assumption	Increase in benefit costs 2013
100 basis point decrease in the discount rate	2,568
100 basis point increase in the inflation rate:	
Impact of benefit indexation rate	773
Impact of wage growth	446
Impact of health care cost escalation	461

Claims development

Benefit liabilities include the current estimate of future payments related to claims incurred during 2013 and prior years. Each reporting period, benefit liabilities are adjusted for changes in the estimate of the future payments, and the change in estimate is recognized in benefit costs. The table below provides the development of the estimates related to claims incurred from 2007 – 2013.

	Year of injury							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Year of estimate								
2007	2,488							
2008	2,458	2,393						
2009	2,786	2,620	2,164					
2010	3,105	3,052	2,418	2,361				
2011	3,286	3,065	2,207	2,744	2,760			
2012	3,423	3,241	2,518	2,270	2,363	2,815		
2013	3,135	3,077	2,340	2,065	2,019	2,274	2,627	
Current estimate of cumulative claims costs	3,135	3,077	2,340	2,065	2,019	2,274	2,627	17,537
Cumulative payments made	(1,357)	(1,156)	(718)	(514)	(396)	(319)	(169)	(4,629)
Outstanding claims (undiscounted)	1,778	1,921	1,622	1,551	1,623	1,955	2,458	12,908
Effect of discounting	(799)	(870)	(767)	(762)	(811)	(970)	(1,138)	(6,117)
Discounted outstanding claims	979	1,051	855	789	812	985	1,320	6,791
Discounted outstanding claims prior to 2007 injury year								17,460
Claim administration costs								1,144
Long latency occupational diseases								1,565
Total outstanding claims								**26,960**

Rate setting

In accordance with the WSIA, the WSIB's obligations are satisfied by charging annual premiums to all Schedule 1 employers and investment income. The premiums are determined based on a percentage of insurable earnings of each Schedule 1 employer. Schedule 1 employers are classified within specific rate groups, which are based on the nature of the employer's business. The premium rate applicable to particular rate groups and Schedule 1 employers within that group is determined as the sum of four main components:

a) the cost of new claims, which is based on the expected number of claims and benefit payment costs of that rate group;

b) administration costs, which is based on the rate group's share of expected administration costs and legislative obligations of the WSIB;

c) the cost of old claims, which is based on the amortization of the shortfall between the costs of old claims and the accumulated assets supporting those claims; and

d) experience rating, which, depending on the size and class of the employer, is based on relative historical cost performance of the employer relative to other employers in the same rate group.

Concentration of risks

The WSIB provides workplace injury insurance for all Schedule 1 employers with workers in the Province. In this respect, the WSIB's risk is concentrated among the workplace risks associated with the various industries in the Province. The insurable earnings by industry for the year ended December 31, 2013 is provided below.

Industry	Insurable earnings	% of total
Agriculture	1,895	1.1%
Automotive	7,076	4.2%
Construction	18,040	10.6%
Education	6,554	3.9%
Electrical	5,378	3.2%
Food	4,853	2.9%
Forestry	391	0.2%
Health care	22,296	13.1%
Manufacturing	36,940	21.7%
Mining	2,002	1.2%
Municipal	2,058	1.2%
Primary metals	1,634	1.0%
Process and chemicals	4,490	2.6%
Pulp and paper	745	0.4%
Services	45,834	26.9%
Transportation	9,895	5.8%
Total	**170,081**	**100.0%**

In addition, the WSIB's risks are concentrated among the workplace injuries and diseases that result in disabilities or deaths to injured workers. The WSIA does not provide the WSIB with the ability to diversify away from these risks. Additional risks can arise from appeals or legislative changes, which can produce an immediate increase in benefit liabilities.

Premium rates are the only means to mitigate these risks, other than investment income. Premium rates are adjusted annually as benefit liabilities and risks are reviewed and then differentiated by rate group in order to reflect the higher or lower expected costs and loss frequency associated with particular rate groups. In addition, the rates charged to larger employers in the same rate group are further adjusted based on the historical claims experience of that employer relative to the rate group as a whole.

Liquidity of benefit liabilities risks

The following table provides an estimate of the expected timing of undiscounted cash flows for benefit payments for claims:

	2013	2012
Up to one year	5%	5%
Over one year and up to five years	18%	18%
Over five years and up to ten years	19%	19%
Over ten years and up to fifteen years	16%	16%
Over fifteen years	42%	42%
	100%	**100%**

20. Commitments and Contingent Liabilities

Operating leases

The WSIB is the lessee to a number of operating leases for office space and computer equipment, with lease terms up to 10 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Minimum lease payments
Not later than one year	15
Later than one year and not later than five years	20
Later than five years	13
	48

During the year ended December 31, 2013, operating lease payments of $14 (2012 – $13) were recognized in administration and other expenses. The payments included charges for operating expenses related to the leases of office space.

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	2013	**2012**
Real estate, multi-asset and infrastructure investments	606	491
Investments in associates and joint ventures	198	222
Purchase or development of investment properties	197	-
	1,001	**713**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at December 31, 2013 were approximately $254 for 2014 (2012 – $240 for 2013). Known commitments for voluntary employer incentive programs as at December 31, 2013 were nil (2012 – nil).

Other commitments

At December 31, 2013, the WSIB has additional commitments going forward under non-cancellable contracts for purchases of goods and services with minimum future payments of approximately $149 (2012 – $133).

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements vary.

21. Fair Value Measurement and Disclosures

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

Assets / Liabilities	**Fair value measurement**
Cash and cash equivalents, equity securities, bonds, investment funds, real estate debentures, annuities, derivative assets and derivative liabilities	Measured at fair value in the consolidated statement of financial position.
Receivables, payables and accruals	Measured at amortized cost in the consolidated statement of financial position. Due to the short-term nature of these financial assets and financial liabilities, the carrying amount approximates fair value.
Investment properties	Measured at fair value in the consolidated statement of financial position.
Long-term debt	Measured at amortized cost in the consolidated statement of financial position. Fair value at December 31, 2013 was $191 (carrying amount – $168). Fair value at December 31, 2012 was $204 (carrying amount – $169).

Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of assets or liabilities.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The classifications are as follows:

a) the use of quoted market prices for identical assets or liabilities (Level 1);

b) valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable (Level 2); and

c) valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (Level 3).

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

During the year ended December 31, 2013 and the year ended December 31, 2012, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

	December 31, 2013				December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value								
Cash and cash equivalents	747	527	-	1,274	631	700	-	1,331
Equity securities	8,392	175	-	8,567	7,668	39	-	7,707
Bonds	-	5,448	-	5,448	-	5,058	-	5,058
Investment funds	-	4,004	-	4,004	-	2,550	-	2,550
Real estate debentures	-	-	379	379	-	-	356	356
Investment properties	-	-	962	962	-	-	643	643
Derivative assets	-	37	-	37	-	38	-	38
Annuities	-	75	-	75	-	71	-	71
Derivative liabilities	-	(78)	-	(78)	-	(88)	-	(88)
Liabilities for which fair value is disclosed								
Long-term debt	-	(191)	-	(191)	-	(204)	-	(204)

The table below provides a general description of the valuation methods used for fair value measurements.

Hierarchy level	**Valuation method**
Level 1	Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	*Real estate debentures* The fair value of the real estate debentures is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties. *Investment properties* Fair values of investment properties are estimated based on valuations performed by qualified appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. At least one valuation per year for each property is based on an independent appraisal.

Real estate debentures (level 3 fair value measurements)

The table below provides a reconciliation of the fair value of real estate debentures:

	2013	2012
Balance at beginning of year	356	337
Purchases	11	9
Sales	(1)	(10)
Realized gains recognized in net investment income	-	2
Unrealized gains recognized in net investment income	13	18
Balance at end of year	**379**	**356**

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	2013	2012
Real estate debentures		
Discount rates	5.5% - 8.5%	6.3% - 8.5%
Terminal capitalization rates	4.8% - 7.8%	5.3% - 7.5%

The WSIB has estimated that a 50 basis point increase in the assumptions used for both the terminal capitalization rate and discount rate would result in a $40 decrease (2012 – $34) in the fair value of the real estate debentures. A 50 basis point decrease in the assumptions used for both the terminal capitalization rate and discount rate would result in an estimated $45 increase (2012 – $35) in the fair value of the real estate debentures. The WSIB has also estimated that a five percent increase (decrease) in the expected future cash flows of the underlying properties would result in a $21 (2012 – $19) increase (decrease) in the fair value of the real estate debentures.

Investment properties (level 3 fair value measurements)

Note 12 provides a reconciliation of the fair value of investment properties.

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	2013	2012
Office properties		
Discount rates	6.5% - 8.0%	7.0% - 8.3%
Terminal capitalization rates	5.8% - 7.0%	6.3% - 7.3%
Industrial properties		
Discount rates	6.0% - 8.0%	7.0% - 8.0%
Terminal capitalization rates	5.0% - 7.3%	6.5% - 7.3%
Retail properties		
Discount rates	7.3% - 8.0%	7.5% - 8.0%
Terminal capitalization rates	6.0% - 6.5%	6.3% - 6.8%

The WSIB has estimated that a 50 basis point increase in the assumptions used for both the terminal capitalization rate and discount rate would result in a $69 (2012 – $45) decrease in the fair value of the investment properties. A 50 basis point decrease in the assumptions used for both the terminal capitalization rate and discount rate would result in an estimated $82 (2012 – $49) increase in the fair value of the investment properties. The WSIB has also estimated that a five percent increase (decrease) in the stabilized net operating income or expected future cash flows would result in a $44 (2012 – $29) increase (decrease) in the fair value of the investment properties.

22. Funding and Capital Management

As the trust agency for administering the Province's compensation system, the WSIB's capital management objective is to ensure sufficient funding to provide compensation and other benefits to workers and to the survivors of deceased workers. The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, the WSIA requires the WSIB to maintain sufficient funding so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

The capital resources available to the WSIB are comprised of its total assets less total liabilities, excluding those attributable to non-controlling interests. At December 31, 2013, the WSIB's capital is represented by the unfunded liability attributable to WSIB stakeholders of $10,638 (2012 - $14,061).

Ontario Regulation 141/12 ("Regulation 141"), which came into force January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by certain dates over the next 15 years. This regulation was amended by *Ontario Regulation 338/13*, which comes into force January 1, 2014 and further clarifies the measurement of assets and liabilities included in the Sufficiency Ratio. The Sufficiency Ratio is calculated by comparing total assets to total liabilities, with certain assets and liabilities measured on a different basis than that required under IFRS. The WSIB is required to meet the following Sufficiency Ratios, as defined by regulation:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

On August 8, 2013, the Minister of Labour formally accepted the WSIB's Sufficiency Plan describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed targets. The WSIB prepares a quarterly Sufficiency Report to Stakeholders to report on its progress towards meeting the legislated funding requirements.

As at December 31, 2013, the Sufficiency Ratio, as defined in Regulation 141, was 66.0% (2012 – 57.0%).

23. Financial Risk Management

The WSIB is exposed to a number of risks and uncertainties related to its financial instruments and benefit liabilities. In order to mitigate these risks, the WSIB employs a broad and diversified set of risk mitigation policies and techniques.

Liquidity risk

Liquidity risk, or funding risk, is the risk the WSIB will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The WSIB mitigates this risk by ensuring the majority of its investment portfolio is invested in well established, active and liquid markets. As at December 31, 2013, 67.0% (2012 – 72.6%) of the investment portfolio was invested in readily marketable fixed income securities and publicly traded equities. Note 10 provides further information on the nature of the assets within the investment portfolio.

The following provides the carrying values of all financial instruments by contractual maturity or expected cash flow:

	Within 1 year	2 - 5 years	6 - 10 years	Over 10 years	No fixed maturity	2013	2012
Cash and cash equivalents	1,274	-	-	-	-	1,274	1,331
Receivables	1,168	-	-	-	-	1,168	1,168
Equity securities	-	-	-	-	8,567	8,567	7,707
Bonds	20	2,288	1,516	1,605	19	5,448	5,058
Investment funds	-	-	-	-	4,004	4,004	2,550
Real estate debentures	-	-	-	-	379	379	356
Derivative assets	37	-	-	-	-	37	38
Annuities	-	-	-	-	75	75	71
Payables and accruals	(1,090)	-	-	-	-	(1,090)	(1,076)
Derivative liabilities	(78)	-	-	-	-	(78)	(88)
Long-term debt	(32)	(91)	(5)	(40)	-	(168)	(169)

The WSIB maintains a $150 unsecured line of credit with a commercial bank for general corporate purposes.

Credit risk

Credit risk is the risk a borrower or counterparty will fail to discharge an obligation and cause the WSIB to incur a financial loss.

a) Bonds

The WSIB's fixed income securities consist primarily of high quality, investment grade debt instruments. An investment grade debt instrument is one that is rated BBB and above. The WSIB manages its credit risk through a due diligence process, by selecting multiple highly rated counterparties and by setting counterparty exposure limits.

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The following provides information regarding the credit rating of the WSIB's bonds:

	2013		2012	
AAA	2,074	38.1%	1,830	36.2%
AA	1,570	28.8%	1,445	28.6%
A	1,465	26.9%	1,413	27.9%
BBB	338	6.2%	369	7.3%
BB	1	- %	1	- %
	5,448	**100.0%**	**5,058**	**100.0%**

The following provides further information regarding the maximum credit exposure of bonds:

	2013	2012
Bonds		
Canadian bonds	5,042	4,551
United States bonds	183	208
Global bonds	223	299
	5,448	**5,058**

Credit risk associated with bonds also includes concentration risk. Concentration risk arises from the exposure of investments from one particular issuer, a group of issuers, a geographic region, or an industry sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and political conditions, which may impact the issuers' ability to meet their contractual commitments.

The WSIB manages concentration risk through limits on exposure to issuers, regions and industry sectors. Through these limits, not more than five percent of the fair value of the investment portfolio is invested in the securities of a single non-government issuer.

The following provides information regarding the concentration of bonds.

	2013		2012	
Provincial and municipal	2,572	47.2%	2,073	41.0%
Federal government and agencies	1,515	27.8%	1,452	28.7%
Financial services	623	11.4%	726	14.3%
Utilities and telecommunications	315	5.8%	357	7.1%
Other corporate	147	2.7%	157	3.1%
Natural resources	92	1.7%	111	2.2%
Consumer products and merchandising	76	1.4%	75	1.5%
Real estate	51	0.9%	41	0.8%
Asset-backed securities	31	0.6%	29	0.6%
Communications and publishing	22	0.4%	32	0.6%
Industrial products	4	0.1%	5	0.1%
	5,448	**100.0%**	**5,058**	**100.0%**

b) Securities lending program

The WSIB manages counterparty risk relating to its securities lending program by establishing a pre-approved, qualified borrower list and through exposure limits. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The collateral is comprised primarily of government bonds and major bank short-term notes The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates.

c) Accounts receivable from Schedule 2 employers

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. At December 31, 2013, the WSIB held collateral in the form of letters of credit in the amount of $315 (2012 – $315) to mitigate any credit risk associated with Schedule 2 employers. These letters of credit are issued by highly rated Canadian financial institutions and can be drawn on demand.

Market risk

Market risk includes currency risk, interest rate risk and price risk.

a) Currency risk

Currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB is exposed to a number of foreign currencies in its investment portfolio. The WSIB also uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception.

The WSIB has a currency hedging policy which is reviewed and approved on an annual basis by the Investment Committee. The currency hedging policy provides guidelines about hedging currencies, hedging instruments, rebalancing frequency and overall currency hedging controls and process. To manage the currency risk, the WSIB monitors closely the currency exposure and has established a currency hedge rebalancing guideline. The policy specifies, among other operational matters, the rebalance frequency and the threshold of hedge ratio deviation that will trigger a rebalancing transaction.

The following provides a sensitivity analysis of the effect of a one percent increase or decrease in the Canadian dollar compared to the five foreign currencies that represent 85% (2012 – 76%) of the WSIB's foreign currency exposure in its investment portfolio:

Currency	**Total exposure**	**Effect of 1% change**
United States dollar	2,208	22
Euro	526	5
British Pound sterling	301	3
Hong Kong dollar	256	3
Japanese yen	144	1
	3,435	**34**

b) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic analyses that assess the impact of different interest rate scenarios on its assets and liabilities over a period of time. Interest rate risk is mitigated over the long-term primarily through asset allocation.

The WSIB uses option adjusted modified duration to measure the sensitivity of the fair value of bonds to a change in interest rates. A parallel shift in the yield curve of one percent, with all other variables held constant, would result in an increase or decrease in the fair value of bonds of approximately $677 (2012 – $701). This information is based on the assumption that the bonds are not impaired and interest rates and equity prices move independently.

c) Price risk

Price risk is the risk the value of an equity security will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument, specific to its issuer, or affecting all instruments traded in the market.

The WSIB mitigates price risk by diversifying its investment portfolio in accordance with its investment policies. The investment policies establish the policies governing the WSIB investment portfolio, and is reviewed by the Board of Directors on no less than an annual basis and is amended as required. The investment policies require that the WSIB's investment portfolio be diversified across certain asset classes and investment strategies.

The estimated effect on the fair value of equity securities resulting from a 10% change in market indices, holding all other factors constant, is as follows:

	Total exposure	Effect of 10% change
MSCI All Country World Index	**9,103**	**910**

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of future payments for reported and unreported claims related to workers of Schedule 1 employers incurred on or prior to the reporting date. Benefit liabilities do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of the WSIB's expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of benefit liabilities is an inherently uncertain process.

The WSIB is exposed to the risk that the actual obligations for benefit payments exceed its estimate of benefit liabilities. Benefit liabilities are influenced by factors such as the discount rate used to value future claims, expected inflation, availability, utilization and cost of health care services, injury severity and duration, availability of return-to-work programs and re-employment opportunities at pre-injury employers, wage growth, new medical findings that affect the recognition of occupational diseases, legislated changes to benefit rates or modification of the recognition of workplace injuries, which are sometimes applied retroactively, and precedents established through various claims appeals processes.

The WSIB mitigates these risks by utilizing both proprietary and commercially available actuarial models, assessing historical loss development patterns in addition to augmenting its resources with the recruitment of a Chief Statistician and the formation of an Actuarial Advisory Board consisting of individuals with expertise in the area of actuarial science and specifically as it relates to worker compensation matters.

Note 19 provides further information regarding the nature of benefit liabilities.

24. Related Party Transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund costs associated with the MoL's prevention activities, the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for voluntary employer incentive programs, the Institute for Work & Health and the Safe Workplace Associations, clinics and training centres. The total funding provided under these legislated obligations and funding commitments for the year ended December 31, 2013 was $286 (2012 – $276).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expense, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies and Crown corporations of the Government of Ontario.

Included in bonds are $1,083 of marketable fixed income securities issued by the Government of Ontario and related entities (2012 – $960).

Key management remuneration

The remuneration of key management, which includes the Board of Directors, is included in administration and other expenses.

	2013	2012
Salaries and short-term benefits	2.7	2.7
Long-term benefit plans	0.2	0.2
	2.9	**2.9**

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties. Note 18 provides details of transactions with these post-employment benefit plans.

25. Interests in Other Entities

Interests in subsidiaries

The WSIB's consolidated financial statements include the financial statements of all its subsidiaries.

a) Directly owned subsidiaries

The WSIB's invested assets are held directly or indirectly by the following subsidiaries:

	WSIB's ownership		**Country of incorporation and operation**
	2013	**2012**	
Wholly owned subsidiary			
799549 Ontario Inc.	100.0%	100.0%	Canada
Partly-owned subsidiaries ("Investment Pools")			
Absolute Return (2012) Pooled Fund Trust	88.4%	88.0%	Canada
Diversified Markets (2010) Pooled Fund Trust (i)	88.8%	n/a	Canada
Diversified Beta Strategies Limited (i)	n/a	88.0%	Canada
Diversified Markets (2009) Pooled Fund Trust	88.8%	88.3%	Canada
WSIB Investments (Fixed Income) Pooled Fund Trust	88.9%	88.0%	Canada
WSIB Investments (Infrastructure) Pooled Fund Trust	88.1%	87.9%	Canada
WSIB Investments (Public Equities) Pooled Fund Trust	88.9%	88.4%	Canada
WSIB Investments (Realty) Limited	87.9%	87.9%	Canada
WSIB Investments (Total Return) Pooled Fund Trust	88.3%	87.9%	Canada

(i) During 2013, Diversified Beta Strategies Limited was wound-up, and Diversified Markets (2010) Pooled Fund Trust was established.

The WSIB Employees' Pension Plan is the non-controlling interest in each of the Investment Pools listed above; its non-controlling ownership ranges from 11.1% - 12.1%. The following provides aggregated summary financial information for the Investment Pools, before intercompany eliminations:

Summary information from statements of financial position	2013	2012
Total assets	20,774	17,660
Total liabilities	(199)	(221)
Surplus of assets	**20,575**	**17,439**
Attributable to the WSIB Employees' Pension Plan	**2,313**	**2,054**

Summary information from statements of comprehensive income	2013	2012
Investment income	2,325	1,674
Investment expenses	(62)	(59)
Net investment income, net income and comprehensive income	**2,263**	**1,615**
Attributable to the WSIB Employees' Pension Plan	**258**	**191**

Details of the nature of investments held by the Investment Pools are included in note 10.

b) Other subsidiaries

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of wholly and partly-owned subsidiaries. The WSIB's consolidated financial statements include the financial statements of these subsidiaries.

c) Reconciliation of non-controlling interests

The following provides a reconciliation of the unfunded liability attributable to WSIB stakeholders and non-controlling interests, including the effect of changes in ownership:

	Unfunded liability attributable to WSIB stakeholders	**Non-controlling interests**		
		Investment Pools	**Other subsidiaries**	**Total**
Balance at December 31, 2011	(14,807)	1,867	38	1,905
Total comprehensive income	746	191	7	198
Acquisition of businesses with non-controlling interests (note 12)	-	-	4	4
Distributions paid by subsidiaries to non-controlling interests	-	(91)	(2)	(93)
Disposition of non-controlling interests (i)	-	87	2	89
Balance at December 31, 2012	(14,061)	2,054	49	2,103
Total comprehensive income	3,423	258	6	264
Acquisition of a businesses with non-controlling interests (note 12)	-	-	22	22
Distributions paid by subsidiaries to non-controlling interests	-	(109)	(3)	(112)
Disposition of non-controlling interests (i)	-	110	7	117
Balance at December 31, 2013	**(10,638)**	**2,313**	**81**	**2,394**

i) Disposition of non-controlling interests represent net contributions by non-controlling interests and resulted in changes in the WSIB's ownership share in the Investment Pools, however there was no effect on the unfunded liability attributable to WSIB stakeholders. The net contributions by non-controlling interests in other subsidiaries did not result in any changes in the WSIB's ownership share.

Interests in associates

WSIB Investments (Realty) Limited holds invested assets in a number of associates. The WSIB's investments in associates are accounted for in the consolidated financial statements using the equity method; investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' comprehensive income.

Summary financial information for these associates in aggregate is provided in note 11.

Interests in joint ventures

WSIB Investments (Realty) Limited and WSIB Investments (Infrastructure) Pooled Fund Trust hold invested assets in a number of joint ventures. The WSIB's investments in joint ventures are accounted for in the consolidated financial statements using the equity method; investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the joint ventures' comprehensive income.

Summary financial information for the joint ventures in aggregate is provided in note 11.

Interests in joint operations

799549 Ontario Inc. and WSIB Investments (Realty) Limited hold invested assets in a number of joint operations. The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Summary financial information for the joint operations in aggregate is provided in note 13.